Contents

Company Information

Board of Directors	Asghar D. Habib	*Chairman*
	Ali Raza D. Habib	
	Muhammad Nawaz Tishna	
	Murtaza H. Habib	
	Farouq Habib Rahimtoola	
	Amin Ali Abdul Hamid	
	Imran A. Habib	
	Raeesul Hasan	*Chief Executive*
Audit Committee	Ali Raza D. Habib	Chairman
	Amin Ali Abdul Hamid	Member
	Imran A. Habib	Member

Company Secretary
Cawas R. Sethna

Registered Office
4th Floor, Imperial Court,
Dr. Ziauddin Ahmed Road,
Karachi-75530
Phones : (+92-21) 35680036 - 5 Lines
Fax : (+92-21) 35684086
www : habib.com/sugar
E-mail : sugar@habib.com

Mills
Nawabshah
Phones : (+92-244) 360751 - 5 Lines
Fax : (+92-244) 361314

Bankers
Allied Bank of Pakistan Limited
Bank AL Habib Limited
Barclays Bank PLC, Pakistan
Citibank N.A.
First Women Bank Limited
Habib Bank Limited
Habib Metropolitan Bank Limited
MCB Bank Limited
Meezan Bank Limited
National Bank of Pakistan
Standard Chartered Bank (Pakistan) Limited
United Bank Limited

Statutory Auditors
Ernst & Young Ford Rhodes Sidat Hyder
Chartered Accountants

Cost Auditors
Hyder Bhimji & Co.
Chartered Accountants

Share Registrars
Corporate Management Services (Pvt) Ltd.
3rd Floor, Imperial Court,
Dr. Ziauddin Ahmed Road,
Karachi-75530
Phones : (+92-21) 35693741-42
Fax : (+92-21) 35693743

VISION STATEMENT

We aim to be a leading manufacturer and supplier of quality sugar, ethanol, liquid carbon dioxide (CO_2) and household textiles in local and international markets. We aspire to be known for the quality of our products and intend to play a pivotal role in the economic and social development of Pakistan.

MISSION STATEMENT

As a prominent producer and supplier of sugar, ethanol, liquid carbon dioxide (CO_2) and household textiles, we shall continue to strive to achieve excellence in performance and aim to exceed the expectations of all stakeholders. We target to achieve technological advancements to inculcate the most efficient, ethical and time tested business practices in our management.

Statement of Ethics and Business Practices

The founders of Habib Sugar Mills Limited were visionaries who established the company on very sound principles and envisioned its development and growth on the basis of making no compromises in any aspects of business practices. The company takes pride in adherence to its principles and continues to serve its customers, stakeholders and society based on the following guidelines:

Products

- To produce refined, high-grade sugar that is edible and hygienic and provides all the nutrition and food value at standards determined by the company, which would exceed industry norms and averages.
- To produce by-products and allied products including molasses, ethanol and liquid carbon dioxide (CO_2).
- To diversify into other products such as home textiles thus consuming indigenous raw material and generating export earnings.

Systems & Processes

- To regularly update and upgrade manufacturing systems and processes so as to keep abreast with technological advancements, achieve economies of production and transfer knowledge and skill to workers.
- To develop and maintain the technical and professional standards, standard operating procedures and stringent quality control measures with on-line quality assurance at every stage of manufacture.
- To continuously conduct product research and develop new products, while improving upon the existing products, using ideal additives and packaging material.
- To regularly maintain, replace and upgrade all machinery and equipment for smooth working, optimum output and ensure safe working in all production units.
- To maintain a smooth work-flow in all departments with an effective communication system contained within the framework of principles yet allowing the required degree of autonomy for efficient functioning.

Management & Employees

- To employ only the appropriately suited human resource through the selection and recruitment process based on the commensurate qualifications and experience criteria without any non-professional considerations, without any bias or prejudice of race, cast, colour, creed or religious beliefs.
- To ensure that all management personnel are adequately qualified to perform management functions as assigned.
- To guide, direct and motivate employees to perform functions and to recognize and reward employees based on their performance outputs.
- To measure employee performance by a pre-determined criteria so as to be fair and equitable towards every single employee.
- To ensure that all employees work towards achievement of corporate objectives, individually and collectively as a team and conduct themselves at work and in society as respectable employees and responsible citizens.

- To regularly train all employees at all levels to improve their knowledge and skill and provide employees with a career path whereby they can seek a planned betterment in their professional and personal life.
- To ensure that all employees and management personnel strictly adhere to the company rules and regulations and observe the best codes of conduct and abide by all laws of Pakistan.
- To make timely payment of salaries, wages and all allowances and benefits to all employees in line with their terms.
- To ensure that all directors and employees of the company shall undertake such activities, whether personal or professional, that in no way conflicts with the interests of the company but contributes towards the betterment, development and growth of the organization in particular and the industry in general.

Financial

- To implement an effective, transparent and secure financial reporting and internal control system so as to ensure compliance with regulatory factors as well as meet all obligations of payables and receivables and keep investors, shareholders and management fully aware.
- To ensure effective utilization of all company resources and plan and operate resource utilization in order to produce better results and generate better yields and facilitate timely decisions.
- To place a strict internal audit system to study, analyze, review and report all company earning and spending and enhance reliability of all financial information and build shareholders' confidence.
- To regularly prepare, as per pre-determined schedules, all financial reports and present accounts to the board for review and analysis and show trends based on company income, revenues and expenses and industry trends.
- To ensure cost effectiveness and purchase goods and services based on developed criteria, vendor assessment and market competitiveness and evaluate options on prices, terms, products / services, substitute available, prior to purchase.
- To ensure timely and proper payments as per negotiated terms to all suppliers and deduct applicable taxes so as to enhance corporate credibility and image.
- To maintain an excellent relationship with bankers and utilize banking facilities in a manner to benefit company whilst making proper use of funding and facilities available and ensuring no defaults.

Adherence to Law

- The company shall at all times strictly adhere to all laws of the country and fulfill all statutory requirements and ensure timely, proper and full payment of all applicable taxes, rates, duties and / or any other levies as may be imposed from time to time.

Environment

- The company shall use all means to ensure a clean, safe, healthy and pollution free environment not only for its workers and employees but for the well being of all people who live in and around any of the production and manufacturing units and employ such technology as may be beneficial in maintaining a healthy and hygienic working and living environment.

Planning

- The company shall prepare an annual plan with clearly defined objectives, goals and strategies and implement those plans with a close watch on achievements and monitor, and control measures shall be built in to ensure achievement of objectives and enhancement of corporate image.

Notice of Annual General Meeting

Notice is hereby given that the Forty-ninth Annual General Meeting of Habib Sugar Mills Limited will be held on Saturday, January 29, 2011 at 11.30 a.m. at Jinnah Auditorium, Institute of Bankers Pakistan, Moulvi Tamizuddin Khan Road, Karachi to transact the following business:

Ordinary Business

1. To receive and consider the audited financial statements, the Directors' report and the Auditors' report for the year ended September 30, 2010.

2. To approve payment of cash dividend @ 25% i.e. Rs. 1.25 per share of Rs. 5 each for the year ended September 30, 2010 as recommended by the Board of Directors.

3. To approve the issue of bonus shares in the proportion of one share for every four shares held i.e. 25% for the year ended September 30, 2010 as recommended by the Board of Directors.

4. To appoint auditors for the year ending September 30, 2011 and fix their remuneration.

5. To elect Directors of the Company in accordance with the provisions of the Companies Ordinance, 1984. The number of elected Directors of the company fixed by the Board of Directors in their meeting held on December 22, 2010 is seven (7). The retiring Directors are Messrs.. Asghar D. Habib, Ali Raza D. Habib, Muhammad Nawaz Tishna, Murtaza H. Habib, Farouq Habib Rahimtoola, Amin Ali Abdul Hamid and Imran A. Habib and are eligible for re-election.

Special Business

6. To transact the following business viz., consideration and if thought fit, the passing of the following special resolution in respect of increase in Authorized Capital of the Company:

   “RESOLVED that the figures and words “Rs. 600,000,000 (Rupees six hundred million) divided into 120,000,000 ordinary shares of Rs. 5 each” appearing in Clause V of the Memorandum of Association and in Article 4 of the Articles of Association of the Company be and are hereby substituted by the figures and words “Rs. 750,000,000 (Rupees seven hundred fifty million) divided into 150,000,000 ordinary shares of Rs. 5 each.”

7. To consider and pass the following resolution regarding payment of proceeds of fractional bonus shares to a charitable institution:

   “RESOLVED that in the event of any member holding shares which are not an exact multiple of four, the Directors be and are hereby authorized to consolidate all such fractions of bonus shares and sell these shares in the stock market and to pay the proceeds of sale when realized to a charitable institution.

   RESOLVED FURTHER that the Directors be and are hereby authorized and empowered to give effect to this resolution and to do or cause to be done all acts, deeds and things that may be necessary or required.”

8. To approve the remuneration of working Directors of the Company.

9. To consider and pass the following resolution, regarding placing of the quarterly accounts of the Company on its website subject to approval from the Securities and Exchange Commission of Pakistan, instead of sending the same to the members by post:

   "RESOLVED that subject to the approval of the Securities and Exchange Commission of Pakistan (SECP) and compliance of the requirements as laid down in SECP Circular No. 19 dated April 14, 2004, the Company be and is hereby authorized to transmit its quarterly accounts by placing the same on the website of the Company."

   Statement under Section 160 (I) (b) of the Companies Ordinance 1984 in respect of the special business of the Agenda at item numbers 6, 7, 8, & 9 to be considered at the meeting is being sent to the members along with a copy of this notice.

By order of the Board

Cawas R. Sethna
Company Secretary

Karachi: December 22, 2010

Notes:

1. The Share Transfer Books of the Company will remain closed from Saturday, January 15, 2011 to Saturday, January 29, 2011, both days inclusive.

2. A member entitled to attend and vote at this meeting is entitled to appoint another member of the Company as a proxy to attend and vote on his / her behalf. Proxies in order to be effective must be received at the Registered Office of the Company duly stamped and signed at least 48 hours before the time of meeting.

3. For identification, CDC account holders should present the participant's National Identity Card, and CDC Account Number.

4. Members are requested to notify any change in their addresses and their contact numbers immediately to our Share Registrars, Messrs. Corporate Management Services (Pvt.) Limited, Karachi.

5. Members who have not yet submitted photocopy of their valid Computerized National Identity Card (CNIC) are requested to send the same to the Company / Registrar.

Statement Under Section 160 (1) (b) of the Companies Ordinance, 1984

This Statement sets out the material facts concerning the Special Business to be transacted at the 49th Annual General Meeting of the Company to be held on January 29, 2011:

Item 6 of the Agenda – Approval of Increase in Authorized Capital:

With the issuance of 25% Bonus Shares as proposed, the Paid-up Share Capital of the Company would increase to Rs. 750,000,000. Therefore, the present Authorized Share Capital of the Company needs to be increased to facilitate the issuance of proposed bonus shares. Accordingly, the Board of Directors, in their meeting held on December 22, 2010 has recommended to increase the Authorized Share Capital from Rs 600,000,000 (Rupees six hundred million) to Rs. 750,000,000 (Rupees seven hundred fifty million) divided into 150,000,000 (one hundred fifty million) ordinary shares of Rs. 5/- each. Increase in Authorized Share Capital will also necessitate amendments in Clause V of the Memorandum of Association and Article 4 of the Articles of Association of the Company.

The Directors are interested in this business to the extent of their shareholding.

Item 7 of the Agenda - Approval of Payment of Proceeds of Fractional Bonus Shares:

In the event of any member holding shares which are not an exact multiple of four, the Directors be authorized to consolidate all such fractions of bonus shares and sell these shares in the stock market and to pay the proceeds of sale when realized to a charitable institution.

The Directors are interested in this business to the extent of their shareholding.

Item 8 of the Agenda - Approval of remuneration of Directors:
(Disclosure under Section 218)

The following retiring Directors Messrs. Asghar D. Habib, Murtaza H. Habib and Imran A. Habib, being eligible have offered themselves for re-election.

The Board of Directors in their Meeting held on December 22, 2010 have recommended payment of the following remuneration to working Directors of the Company, for a period of three years commencing from January 29, 2011, subject to an increment not exceeding 20% per annum.

	Remuneration per month Rs.
Mr. Asghar D. Habib	750,000
" Murtaza H. Habib	450,000
" Imran A. Habib	450,000

In addition, they will be provided with two company maintained cars, reimbursement of utilities and entertainment at actuals and other benefits as per policy of the Company, which in aggregate is estimated to be approximately 40% of their remuneration as stated above.

The above Directors have interest in the aforesaid business to the extent of their remuneration and perquisites as shown above.

Item 9 of the Agenda - Approval of Placing of Quarterly Accounts on Website of the Company:

The Board of Directors of the Company has recommended that the quarterly accounts of the Company should be transmitted to the members by placing the same on the website of the Company in terms of and in accordance with the requirements of Circular No. 19 of 2004 dated April 14, 2004 of the Securities and Exchange Commission of Pakistan. Such transmittal through the website is subject to requisite authorization being given by the members and is subject to the approval of the Securities and Exchange Commission of Pakistan. Accordingly, it is proposed that a resolution be passed authorizing the transmittal of quarterly accounts through the Company's website.

The Directors are interested in this business to the extent of their shareholding.

Six years' review at a glance

		2010	2009	2008	2007	2006	2005
Sugar Division							
Sugarcane crushed	M. Tons	681,623	780,578	1,264,619	710,965	536,644	496,026
Average sucrose recovery	%	10.24	9.87	9.73	9.00	9.75	9.23
Sugar produced	M. Tons	69,784	77,051	123,064	64,015	52,302	45,794
Raw sugar refined	M. Tons	–	–	–	2,989	29,561	19,000
Average sucrose recovery	%	–	–	–	95.70	95.41	95.59
Sugar produced	M. Tons	–	–	–	2,860	28,228	18,175
Total sugar produced	M. Tons	69,784	77,051	123,064	66,875	80,530	63,969
Distillery Division							
Ethanol							
Molasses processed	M. Tons	145,652	113,321	181,259	153,648	147,257	167,350
Average ethanol yield	%	18.00	19.18	19.64	19.27	17.87	16.83
Ethanol produced	M. Tons	26,210	21,739	35,607	29,608	26,322	28,173
Liquid Carbon dioxide (CO_2) produced	M. Tons	3,648	2,643	–	–	–	–
Textile Division							
Yarn / Semi finished goods consumed	Kgs.	356,648	543,218	934,696	696,647	861,817	897,999
Average yield	%	98.83	98.40	98.10	98.37	99.41	97.59
Finished product	Kgs.	352,490	534,526	916,937	685,287	856,749	876,388
Operating results – Consolidated							
Sales / Rental income	Rs. '000	5,919,338	4,584,186	4,175,804	2,838,960	4,019,324	2,812,407
Cost of sales	Rs. '000	4,960,283	3,720,221	3,440,978	2,468,787	3,601,775	2,518,011
Gross profit	Rs. '000	959,055	863,965	734,826	370,173	417,549	294,396
Profit before taxation	Rs. '000	759,535	654,816	503,747	256,213	260,589	207,340
Profit after taxation	Rs. '000	534,535	489,816	403,747	216,213	215,589	162,340
Shareholders' Equity							
Paid-up capital	Rs. '000	600,000	480,000	360,000	288,000	216,000	162,000
Reserves	Rs. '000	2,251,222	1,973,660	1,670,464	1,693,672	1,347,067	1,044,311
Shareholders' equity	Rs. '000	2,851,222	2,453,660	2,030,464	1,979,672	1,563,067	1,206,311
Break-up value per share	Rupees	23.76	25.56	28.20	34.37	36.18	37.23
Adjusted earnings per share	Rupees	4.45	4.08	3.36	1.80	1.80	1.35
Return on equity	%	18.75	19.96	19.88	10.92	13.79	13.46
Financial position - Assets							
Fixed assets	Rs. '000	817,860	834,424	790,841	680,445	618,039	660,562
Long–term investments	Rs. '000	695,432	555,710	555,721	801,364	614,725	411,540
Long–term loans and deposits	Rs. '000	6,808	6,955	6,832	7,953	8,774	9,132
Current assets	Rs. '000	1,915,962	2,409,420	2,001,089	1,449,674	1,154,168	937,975
Total assets	Rs. '000	3,436,062	3,806,509	3,354,483	2,939,436	2,395,706	2,019,209
Financial position - Liabilities							
Non-current liabilities	Rs. '000	86,500	87,500	86,500	66,500	74,000	64,000
Current liabilities	Rs '000	498,340	1,265,349	1,237,519	893,264	758,639	748,898
Total liabilities	Rs. '000	584,840	1,352,849	1,324,019	959,764	832,639	812,898
Ratios							
Current ratio		3.84	1.90	1.62	1.62	1.52	1.25
Dividends							
Cash	%	25	35	25	20	20	20
Bonus shares	%	25	25	33.33	25	33.33	33.33

Directors' Report

Dear Members – Assalam-o-Alekum

On behalf of the Board of Directors, I am pleased to welcome you to the 49th Annual General Meeting of the Company and to have the privilege of presenting before you the Annual Report and the Audited Financial Statements of the Company for the year ended September 30, 2010.

Financial Results

By the Grace of Allah, during the year under review, the operations of your Company resulted in a pre-tax profit of Rs. 759.535 million. The financial results for the year are as follows :

		(Rupees in thousands)
Profit before taxation		759,535
Less: Taxation		225,000
Profit after taxation		534,535
Un-appropriated profit brought forward		3,706
Profit available for appropriation		538,241
Appropriations:		
Proposed	– Cash dividend @ 25% i.e. Rs. 1.25 per ordinary share of Rs. 5 each	150,000
	– Fully paid bonus shares @ 25% i.e. in the ratio of one bonus share for every four ordinary shares held	150,000
	– Transfer to general reserve	235,000
		535,000
Un-appropriated profit carried forward		3,241
Earnings per share – Basic and diluted		Rs. 4.45

Performance Review

The division-wise performance is presented below:

Sugar Division

Crushing season 2009-10 commenced on November 11, 2009 and the plant operated upto March 2, 2010 for 112 days as against 120 days in the preceding season. Sugarcane crushed during the current season was 681,623 M.Tons with average sucrose recovery of 10.24% and sugar production of 69,784 M.Tons, as compared with crushing of 780,578 M.Tons with average sucrose recovery of 9.87% and sugar production of 77,051 M.Tons during the preceding season. By the grace of Allah, the sucrose recovery achieved during the year was the highest ever since inception.

The Government of Sindh fixed the minimum sugarcane support price at Rs. 102 per 40 kgs for the crushing season 2009-10 as against Rs. 81 per 40 kgs for the crushing season 2008-09. Due to shortage in sugarcane availability and supply, the growers were demanding much higher prices over and above the minimum support price of Rs. 102 per 40 kgs fixed by the Government of Sindh. This resulted in serious price competition amongst mills.

The comparative statistics of operations are as under :

		2009-10	2008-09
Crushing duration	Days	112	120
Sugarcane crushed	M.Tons	681,623	780,578
Average sucrose recovery	%	10.24	9.87
Sugar production	M.Tons	69,784	77,051

By the Grace of Allah, the division earned operating profit of Rs. 634.358 million during the year under review as compared with profit of Rs. 364.650 million during the previous year. As per Company's policy, sale of sugar continued on regular basis resulting in higher sale volume and increased profitability.

During the year under review, the division's financial results were subject to cost audit under the Companies (Audit and Cost Account) Rules, 1998. The cost audit was conducted by Messrs. Hyder Bhimji & Co., Chartered Accountants who were recommended for appointment by the Board and duly approved by the Securities & Exchange Commission of Pakistan. The cost audit has been completed and the Company has received the cost audit report. The report will also be submitted by the cost auditors to the Securities & Exchange commission of Pakistan as required by the Companies (Audit of Cost Accounts) Rules, 1998.

Distillery Division

The comparative statistics of the division's operations are given below:

		2009-10	2008-09
Ethanol			
Days of operation		323	316
Molasses processed	M.Tons	145,652	113,321
Ethanol production	M.Tons	26,210	21,739
Liquid Carbon dioxide (CO_2)			
Days of operation		221	152
Liquid Carbon dioxide (CO_2) production	M.Tons	3,648	2,643

The production of ethanol during the year was 26,210 M.Tons as compared with 21,739 M.Tons produced during the previous year, showing an increase of 20%.

The division earned operating profit of Rs. 100.871 million as compared with profit of Rs. 255.523 million during the previous year. The profitability of the division for the year was affected due to increase in the cost of molasses without corresponding increase in ethanol prices in the international market. Further, recovery of ethanol was also affected due to lower sugar contents in the raw material.

The liquid carbon dioxide (CO2) unit operated satisfactorily and earned operating profit of Rs. 14.224 million as compared with Rs. 16.427 million during the previous year. This profit is included in the distillery division's profit.

Textile Division

The production figures for the year 2009-10, in comparison with the previous year are given hereunder:

Year	Days of operation	Yarn / semi-finished goods consumed	Finished production
		Kgs.	Kgs.
2009-10	300	356,648	352,490
2008-09	300	543,218	534,526

The Textile division earned operating profit of Rs. 0.510 million as compared with profit of Rs. 5.086 million during the previous year. The profitability of the division was affected due to intense competition in the international market, abnormal increase in yarn prices and adverse currency fluctuations in the rate of the Pound Sterling and the Euro.

Trading Division

During the year under review, the division earned operating profit of Rs. 1.561 million on account of molasses trading as compared with operating profit of Rs. 17.910 million during the previous year.

Future Prospects

Sugar Division

The crushing season 2010-11 commenced on October 30, 2010 and upto December 21, 2010 total crushing was 103,737 M.Tons with average sucrose recovery of 8.49 % and sugar production of 8,812 M.Tons including stock in process.

The Government of Sindh has issued a notification on October 20, 2010, fixing the minimum sugarcane support price at Rs. 127 per 40 kgs for the crushing season 2010-11. In addition, sugar mills in Sindh under the above notification are also required to pay quality premium at the rate of paisas fifty for every 0.1 percent recovery in excess of the benchmark of 8.7%. However, in accordance with the said notification while the matter is still pending with the Supreme Court of Pakistan, the quality premium shall remain suspended till the decision of the Hon'ble Supreme Court or consensus on uniform formula is arrived at by the Ministry of Food and Agriculture (MINFA).

The supply of sugarcane so far has been very low due to hold back by the growers. Of late, however, the supply has improved and we hope to achieve optimum levels of crushing in the near future.

Due to shortage in supply, a serious price war is going on amongst the mills and consequently the Company has been compelled to procure sugarcane at the prevailing market rates which at present is around Rs. 200 per 40 kgs. Further, sucrose recovery todate as compared with the previous year is also lower by approximately 1%.

The significant increase in sugarcane procurement cost and reduced sucrose recovery as enumerated above is likely to affect the profitability of the division.

In order to meet the shortfall in sugar production and arrest the upward trend in price of sugar in the open market, the Government allowed duty free import of raw sugar. Your Company availed the opportunity and converted 4,885 tons of raw sugar into 4,609 tons of refined sugar during November and December 2010.

Distillery Division

Upto December 21, 2010 the division has produced 3,555 M.Tons of ethanol.

The price of molasses continues to remain firm. However, the price of ethanol in the international market has improved. Also, recovery of ethanol is expected to be better and the aforesaid factors are likely to have a favourable impact on the profitability of the division.

The liquid carbon dioxide (CO2) unit is expected to operate at optimum levels and achieve increased production as compared with the previous year. Inshallah, the profitability of the unit is also likely to be better.

Textile Division

The slump in the international market continues which may result in reduced sale volume and profitability. The Company has, however, undertaken necessary steps to achieve increased volume of production and sale by importing hi-tech looms which will, Inshallah, be installed and operational by June 2011. This may have a favourable impact on the profitability of the division.

Audit Committee

The Audit Committee comprises of the following members:

Mr. Ali Raza D. Habib	Chairman
" Amin Ali Abdul Hamid	Member
" Imran A. Habib	Member

Election of Directors

The tenure of existing directors expires on January 25, 2011, as such election of directors for a term of three years will be held at the 49th Annual General Meeting of the Company on January 29, 2011. As required under section 178(1) of the Companies Ordinance, 1984, the number of directors of the Company fixed by the Board of Directors is seven (7). The retiring directors are Messrs. Asghar D. Habib, Ali Raza D. Habib, Muhammad Nawaz Tishna, Murtaza H. Habib, Farouq Habib Rahimtoola, Amin Ali Abdul Hamid and Imran A. Habib and are eligible for re-election.

Corporate Social Responsibility

Habib Sugar Mills Corporate Social Responsibility (CSR) programme dates back since its inception in 1962. Responding to the needs of local communities, government bodies and civil society organizations, the Company's CSR portfolio has widened over the years to include social welfare, education, healthcare, infrastructural development and livelihood generation.

Community Investment and Welfare Scheme

As a responsible corporate citizen, the Company on a regular basis has undertaken number of welfare activities viz., running of school upto secondary level, holding of eye camps, financial assistance to villagers in the surrounding area of the mills, installation of water filter plants in villages and town and supply of free ration and clothing to the needy. The Company's contribution in the social and economic uplift of district has been acknowledged at all levels.

Environment

Company attaches utmost importance to provide healthy atmosphere to its employees and residents of Nawabshah and accordingly has taken appropriate steps to ensure pollution free environment involving substantial capital outlay.

The fly ash removal systems installed in the boilers of the mills continue to operate satisfactorily and the spread of black soot particles has been completely eliminated. Similarly, the installation of bio-gas plant and carbon dioxide recovery plant are the manifestation of our social responsibility which has helped us to reduce the greenhouse gases emission from our distillery operations. By the grace of Allah, the successful operations of these projects have ensured a pollution free environment for the people of Nawabshah.

The Company has installed a sugar factory waste water treatment plant to remove oil, grease, total suspended solids, from the waste water. The project has since been completed yielding satisfactory results.

The Company has opted to participate under Clean Development Mechanism (CDM) for methane avoidance project. The existing anaerobic lagoons for treatment of industrial waste water are being replaced with aerobic treatment system. Further, Chinese technology is being adopted for the installation of Upflow Anaerobic Sludge Bed (UASB) waste water treatment system which will further improve the treatment of waste water.

Health, Safety and Security

The Company is fully committed to meet all standards in respect of health, safety and security. The Company also contributes on a regular basis towards the medical needs and assistance of the people in the surrounding areas, by giving donations to hospitals and welfare institutions for medical equipment and apparatus and facilities viz., dialysis machine, hospital beds, improvement in the ward facilities, ambulance etc.

Employment of Special Persons

The Company has provided employment to eleven (11) physically handicapped persons in compliance with the Disabled Persons (Employment & Rehabilitation) Ordinance, 1981.

Industrial Relations

Harmonious working environment and cordial industrial relations atmosphere prevailed at all locations of the Company during the year.

Contribution to the National Exchequer

Your Company contributed an amount of Rs. 557.9 million to the Government treasury in the shape of taxes, levies, sales-tax and excise duty. In addition to that your Company has also earned precious foreign exchange equivalent to Pak Rupees 1,568.6 million (US$ 18.5 million) during the year under review from exports of ethanol, molasses and household textiles.

Auditors

The auditors Messrs. Ernst & Young Ford Rhodes Sidat Hyder, Chartered Accountants, retire and being eligible have offered themselves for re-appointment.

The Audit Committee has recommended to consider the re-appointment of Messrs. Ernst & Young Ford Rhodes Sidat Hyder, Chartered Accountants, as auditors of the Company for the ensuing year.

Statement on Corporate and Financial Reporting Framework

1. The financial statements, prepared by the Company, present fairly its state of affairs, the result of its operations, cash flows and changes in equity.
2. Proper books of account of the Company have been maintained.
3. Appropriate accounting policies have been consistently applied in preparation of the financial statements, changes if any have been adequately disclosed and accounting estimates are based on reasonable and prudent judgement.
4. International Accounting Standards, as applicable in Pakistan, have been followed in preparation of financial statements and departure therefrom if any, has been adequately disclosed.
5. The system of internal control is sound in design and has been effectively implemented and monitored.
6. There are no significant doubts upon the Company's ability to continue as a going concern.
7. There has been no material departure from the best practices of the corporate governance, as detailed in the listing regulations.
8. Key operating and financial data for last six years in summarized form is given on page 9.
9. Information about the taxes and levies is given in the notes to the financial statements and the Directors' report.
10. Value of investments including profit accrued thereon and balances in deposit / current accounts of Provident Fund and Gratuity Fund as at September 30, 2010 were as follows :

	Rs. '000
Provident Fund	229,787
Gratuity Fund	60,483

11. During the year four board meetings were held and the attendance by each Director was as follows:

Name of Director	Number of meetings attended
Mr. Asghar D. Habib	4
" Ali Raza D. Habib	2
" Muhammad Nawaz Tishna	4
" Murtaza H. Habib	3
" Farouq Habib Rahimtoola	4
" Amin Ali Abdul Hamid	3
" Imran A. Habib	3
" Raeesul Hasan	4

12. The pattern of shareholding and additional information regarding pattern of shareholding is given on page 57 and 58.

13. The Directors, CEO, CFO, Company Secretary and their spouses and minor children did not carry out any trade in the shares of the Company.

General

The directors place on record their appreciation of the devoted services and hard work put in by the officers, staff and workers of the Company.

On behalf of the Board of Directors

Asghar D. Habib
Chairman

Karachi: December 22, 2010

Statement of Compliance with the best practices of Code of Corporate Governance

Year Ended September 30, 2010

This statement is being presented to comply with the requirements of the Code of Corporate Governance contained in the listing regulations of the Karachi and Lahore Stock Exchanges for the purpose of establishing a framework of good governance, whereby a listed company is managed in compliance with the best practices of corporate governance.

The Company has applied the principles contained in the Code in the following manner:

1. The Company encourages representation of independent non-executive directors on its Board of Directors. At present the Board includes three independent non-executive directors.
2. The directors have confirmed that none of them is serving as a director in more than ten listed companies, including this Company.
3. All the directors of the Company are registered as taxpayers and none of them has defaulted in payment of any loan to a banking company, a DFI / NBFI or, being a member of a stock exchange, has been declared as a defaulter by that stock exchange.
4. No casual vacancy occurred in the Board during the current year.
5. The Company has prepared a 'Statement of Ethics and Business Practices', which has been signed by all the directors and employees of the Company.
6. The Board has developed a vision / mission statement, overall corporate strategy and significant policies. Particulars of significant policies have been maintained and amended / updated from time to time.
7. All the powers of the Board have been duly exercised and decisions on material transactions, including appointment and determination of remuneration and terms and conditions of employment of the CEO and other executive directors, have been taken by the Board.
8. The meetings of the Board were presided over by the Chairman. The Board met atleast once in every quarter. Written notices of the meetings, along with the working papers were circulated at least seven days before the meetings. The minutes of the meetings were appropriately recorded and circulated.
9. Directors are well conversant with the listing regulations, legal requirements and operational imperatives of the Company, and as such are fully aware of their duties and responsibilities.
10. The Chief Financial Officer / Company Secretary was appointed prior to the enforcement of the Code of Corporate Governance. Appointment of Head of Internal Audit was made after the enforcement of the Code of Corporate Governance and was approved by the Board. Their remuneration and terms and conditions of employment, as determined by the CEO has also been approved by the Board.
11. The Directors' report for the year has been prepared in compliance with the requirements of the Code and describes the salient matters required to be disclosed.
12. The financial statements of the Company were duly endorsed by CEO and CFO before approval of the Board.
13. The directors, CEO and executives do not hold any interest in the shares of the Company other than that disclosed in the pattern of shareholding.

14. The Company has complied with all the corporate and financial reporting requirements of the Code.

15. The Board has formed an audit committee. It comprises of three members, of whom two are non-executive directors including the chairman of the committee.

16. The meetings of the audit committee were held atleast once in every quarter prior to approval of interim and final results of the Company as required by the Code. The terms of reference of the committee have been formed and advised to the committee for compliance.

17. The Board has set-up an effective internal audit function.

18. The statutory auditors of the Company have confirmed that they have been given a satisfactory rating under the quality control review programme of the Institute of Chartered Accountants of Pakistan, that they or any of the partners of the firm, their spouses and minor children do not hold shares of the Company and that the firm and all its partners are in compliance with International Federation of Accountants (IFAC) guidelines on code of ethics as adopted by Institute of Chartered Accountants of Pakistan.

19. The related party transactions have been placed before the audit committee and approved by the Board of Directors to comply with the requirements of listing regulations of the Karachi and Lahore Stock Exchanges.

20. The statutory auditors or the persons associated with them have not been appointed to provide other services except in accordance with the listing regulations and the auditors have confirmed that they have observed IFAC guidelines in this regard.

21. We confirm that all other material principles contained in the Code have been complied with.

Karachi: December 22, 2010

Asghar D. Habib
Chairman

Statement of Compliance with the best practices on Transfer Pricing for the year ended September 30, 2010

The Company has fully complied with the best practices on Transfer Pricing as contained in the respective listing Regulations of the Karachi and Lahore Stock Exchanges.

Karachi: December 22, 2010

Raeesul Hasan
Chief Executive

Review Report to the Members on Statement of Compliance with the Best Practices of the Code of Corporate Governance

We have reviewed the Statement of Compliance with the best practices contained in the Code of Corporate Governance (the Code) for the year ended 30 September 2010 prepared by the Board of Directors of **Habib Sugar Mills Limited** (the Company) to comply with the Listing Regulation No. 35 Chapter XI of Karachi Stock Exchange (Guarantee) Limited and Listing Regulation No. 35 Chapter XI of Lahore Stock Exchange (Guarantee) Limited, where the Company is listed.

The responsibility for compliance with the Code is that of the Board of Directors of the Company. Our responsibility is to review, to the extent where such compliance can be objectively verified, whether the Statement of Compliance reflects the status of the Company's compliance with the provisions of the Code and report if it does not. A review is limited primarily to inquiries of the Company personnel and review of various documents prepared by the Company to comply with the Code.

As part of our audit of financial statements we are required to obtain an understanding of the accounting and internal control systems sufficient to plan the audit and develop an effective audit approach. We are not required to consider whether the Board’s statement on internal control covers all risks and controls, or to form an opinion on the effectiveness of such internal controls, the Company’s corporate governance procedures and risks.

Further, Sub-Regulation (xiii) of Listing Regulations 35 notified by The Karachi Stock Exchange (Guarantee) Limited vide circular KSE/N-269 dated 19 January 2009 requires the company to place before the board of directors for their consideration and approval, related party transactions distinguishing between transactions carried out on terms equivalent to those that prevail in arm’s length transactions and transactions which are not executed at arm’s length price, recording proper justification for using such alternate pricing mechanism. Further, all such transactions are also required to be separately placed before the audit committee. We are only required and have ensured compliance of requirement to the extent of approval of related party transactions by the board of directors and placement of such transactions before the audit committee. We have not carried out any procedures to determine whether the related party transactions were undertaken at arm’s length price or not.

Based on our review, nothing has come to our attention which causes us to believe that the Statement of Compliance does not appropriately reflect the Company’s compliance, in all material respects, with the best practices contained in the Code of Corporate Governance for the year ended 30 September 2010.

Ernst & Young Ford Rhodes Sidat Hyder

Ernst & Young Ford Rhodes Sidat Hyder
Chartered Accountants

Karachi: December 22, 2010

Auditors' Report to the Members

We have audited the annexed balance sheet of **Habib Sugar Mills Limited** as at 30 September 2010 and the related profit and loss account, statement of comprehensive income, cash flow statement and statement of changes in equity together with the notes forming part thereof, for the year then ended and we state that we have obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for the purposes of our audit.

It is the responsibility of the Company's management to establish and maintain a system of internal control, and prepare and present the above said statements in conformity with the approved accounting standards and the requirements of the Companies Ordinance, 1984. Our responsibility is to express an opinion on these statements based on our audit.

We conducted our audit in accordance with the auditing standards as applicable in Pakistan. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the above said statements are free of any material misstatement. An audit includes examining on a test basis, evidence supporting the amounts and disclosures in the above said statements. An audit also includes assessing the accounting policies and significant estimates made by management, as well as, evaluating the overall presentation of the above said statements. We believe that our audit provides a reasonable basis for our opinion and, after due verification, we report that :

(a) in our opinion, proper books of account have been kept by the company as required by the Companies Ordinance, 1984;

(b) in our opinion:

  (i) the balance sheet and profit and loss account together with the notes thereon have been drawn up in conformity with the Companies Ordinance, 1984, and are in agreement with the books of account and are further in accordance with accounting policies consistently applied, except for the changes as stated in note 2.3 to the financial statements, with which we concur;

  (ii) the expenditure incurred during the year was for the purpose of the Company's business; and

  (iii) the business conducted, investments made and the expenditure incurred during the year were in accordance with the objects of the company;

(c) in our opinion and to the best of our information and according to the explanations given to us, the balance sheet, profit and loss account, statement of comprehensive income, cash flow statement and statement of changes in equity together with the notes forming part thereof conform with approved accounting standards as applicable in Pakistan, and, give the information required by the Companies Ordinance, 1984, in the manner so required and respectively give a true and fair view of the state of the Company's affairs as at 30 September 2010 and of the profit, comprehensive income, its cash flows and changes in equity for the year then ended; and

(d) in our opinion, Zakat deductible at source under the Zakat and Ushr Ordinance, 1980 (XVIII of 1980), was deducted by the Company and deposited in the Central Zakat Fund established under Section 7 of that Ordinance.

Ernst & Young Ford Rhodes Sidat Hyder

Ernst & Young Ford Rhodes Sidat Hyder
Chartered Accountants
Audit Engagement Partner: Riaz A. Rehman Chamdia

Karachi: December 22, 2010

Balance Sheet as at September 30, 2010

	Note	2010	2009
		(Rupees in thousands)	
Assets			
Non-Current Assets			
Fixed assets			
Property, plant and equipment	3	817,860	834,424
Long-term investments	4	695,432	555,710
Long-term loans	5	3,860	4,019
Long-term deposits		2,948	2,936
Current Assets			
Stores and spares	6	68,782	58,386
Stock-in-trade	7	319,376	211,039
Trade debts	8	114,178	353,397
Loans and advances	9	58,741	168,490
Trade deposits and short-term prepayments	10	8,771	7,904
Profit accrued on bank deposits		–	9,223
Sales tax and excise duty adjustable		32,631	–
Other receivables	11	6,215	5,314
Cash and bank balances	12	1,307,268	1,595,667
		1,915,962	2,409,420
Total Assets		3,436,062	3,806,509
Equity and Liabilities			
Share Capital and Reserves			
Share Capital			
Authorised			
120,000,000 (2009: 100,000,000) Ordinary shares of Rs. 5 each		600,000	500,000
Issued, subscribed and paid-up capital	13	600,000	480,000
Reserves	14	1,753,241	1,506,706
Unrealised gain on long-term investments - available for sale		497,981	466,954
		2,251,222	1,973,660
		2,851,222	2,453,660
Non-Current Liabilities			
Deferred taxation	15	86,500	87,500
Current Liabilities			
Trade and other payables	16	469,409	774,314
Short-term borrowings	17	–	426,000
Accrued mark-up on short-term borrowings		–	4,635
Provision for income tax - net	18	28,931	60,400
		498,340	1,265,349
Contingencies and Commitments	19		
Total Equity and Liabilities		3,436,062	3,806,509

The annexed notes 1 to 36 form an integral part of these financial statements.

Raeesul Hasan
Chief Executive

Murtaza H. Habib
Director

Profit and Loss Account
for the year ended September 30, 2010

	Note	2010	2009
		(Rupees in thousands)	
Net sales and services	20	5,919,338	4,584,186
Cost of sales	21	4,960,283	3,720,221
Gross Profit		959,055	863,965
Distribution and marketing expenses	22	(128,129)	(141,118)
Administrative expenses	23	(93,626)	(79,678)
Other operating expenses	24	(57,169)	(49,287)
Impairment on long-term investments - available for sale		–	(27,134)
Other operating income	25	41,467	26,258
		(237,457)	(270,959)
Operating Profit		721,598	593,006
Finance income / (cost) - net	26	37,937	61,810
Profit before taxation		759,535	654,816
Taxation	27	(225,000)	(165,000)
Profit after taxation		534,535	489,816
			(Restated)
Earnings per share - Basic and diluted (Rupees)	28	4.45	4.08

The annexed notes 1 to 36 form an integral part of these financial statements.

Raeesul Hasan
Chief Executive

Murtaza H. Habib
Director

Statement of Comprehensive Income
for the year ended September 30, 2010

	2010	2009
	(Rupees in thousands)	
Profit after taxation	534,535	489,816
Other comprehensive income		
Net gain on changes in fair values of investments - available for sale	31,027	23,380
Total comprehensive income after taxation for the year	565,562	513,196

The annexed notes 1 to 36 form an integral part of these financial statements.

Raeesul Hasan
Chief Executive

Murtaza H. Habib
Director

Statement of Changes in Equity
for the year ended September 30, 2010

	Issued subsc-ribed and paid-up Capital	Reserves				Unrealised gain / (loss) on long-term investments available for sale	Total
		Capital Reserve	General Reserve	Unappro-priated profit	Total Reserves		
	(Rupees in thousands)						
Balance as on October 1, 2008	360,000	34,000	786,000	406,890	1,226,890	443,574	2,030,464
Cash dividend for 2008 @ 25%	–	–	–	(90,000)	(90,000)	–	(90,000)
Issue of bonus shares for 2008 @ 33.33%	120,000	–	–	(120,000)	(120,000)	–	–
Transfer to general reserve	–	–	195,000	(195,000)	–	–	–
Total comprehensive income after taxation for the year ended September 30, 2009	–	–	–	489,816	489,816	23,380	513,196
Balance as on September 30, 2009	480,000	34,000	981,000	491,706	1,506,706	466,954	2,453,660
Cash dividend for 2009 @ 35%	–	–	–	(168,000)	(168,000)	–	(168,000)
Issue of bonus shares for 2009 @ 25%	120,000	–	–	(120,000)	(120,000)	–	–
Transfer to general reserve	–	–	200,000	(200,000)	–	–	–
Total comprehensive income after taxation for the year ended September 30, 2010	–	–	–	534,535	534,535	31,027	565,562
Balance as on September 30, 2010	600,000	34,000	1,181,000	538,241	1,753,241	497,981	2,851,222

The annexed notes 1 to 36 form an integral part of these financial statements.

Raeesul Hasan
Chief Executive

Murtaza H. Habib
Director

Cash Flow Statement
for the year ended September 30, 2010

	Note	2010	2009
		(Rupees in thousands)	
Cash flows from operating activities			
Cash generated from operations	29	653,866	1,136,320
Finance income received - net		42,525	60,575
Income tax paid		(257,469)	(104,763)
Long-term loans		159	179
Long-term deposits		(12)	(302)
Net cash generated from operating activities		439,069	1,092,009
Cash flows from investing activities			
Fixed capital expenditure		(64,377)	(122,336)
Sale proceeds of long-term investments		8,981	40
Dividend received		32,204	17,149
Purchase of long-term investments		(116,524)	(3,743)
Sale proceeds of fixed assets		2,602	3,433
Net cash used in investing activities		(137,114)	(105,457)
Cash flows from financing activities			
Dividend paid		(164,354)	(88,266)
Net cash used in financing activities		(164,354)	(88,266)
Net increase in cash and cash equivalents		137,601	898,286
Cash and cash equivalents at the beginning of the year		1,169,667	271,381
Cash and cash equivalents at the end of the year	30	1,307,268	1,169,667

The annexed notes 1 to 36 form an integral part of these financial statements.

Raeesul Hasan
Chief Executive

Murtaza H. Habib
Director

Notes to the Financial Statements
for the year ended September 30, 2010

1. The Company and its operations

Habib Sugar Mills Limited is a public limited Company incorporated in Pakistan, with its shares quoted on the Karachi and Lahore Stock Exchanges. The Company is engaged in the manufacturing and marketing of refined sugar, molasses, ethanol, liquid carbon dioxide, household textiles and providing bulk storage facilities.

2. Summary of significant accounting policies

2.1 Statement of compliance

These financial statements have been prepared in accordance with approved accounting standards as applicable in Pakistan. Approved accounting standards comprise of such International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) and Islamic Financial Accounting Standards (IFASs) issued by the institute of Chartered Accountants of Pakistan as are notified under the Companies Ordinance, 1984, provisions of and directives issued under the Companies Ordinance, 1984. In case requirements differ, the provisions or directives of the Companies Ordinance, 1984 shall prevail.

2.2 Significant accounting judgements and estimates

The preparation of financial statements in conformity with approved accounting standards requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company's accounting policies. Estimates and judgements are continually evaluated and are based on historic experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Revisions to accounting estimates are recognized in the period in which the estimate is revised and in any future periods affected.

In the process of applying the accounting policies, management has made the following estimates and judgements which are significant to the financial statements:

a) Determining the residual values and useful lives of property, plant and equipment (Note 2.7);
b) Classification of investments (Note 2.8);
c) Impairment of inventories / adjustment of inventories to their net realizable value (Note 2.10);
d) Accounting for staff retirement benefits (Note 2.13);
e) Recognition of taxation and deferred tax (Note 2.16); and
f) Impairment of financial assets (Note 2.17).

2.3 Standards, amendments to published approved Accounting Standards and Interpretations:

During the current year the Company has adopted the following new and amended IFRSs as of October 1, 2009 which has resulted in extended disclosures as described below:

IAS-1 “Presentation of Financial Statements” (Revised)

The revised IAS-1 became effective from financial years beginning on or after January 1, 2009. The revised standard requires non-owner changes in equity to be presented separately from owner changes in equity. All non-owner changes in equity are required to be shown in a statement of comprehensive income, but entities can choose whether to present one statement of comprehensive income or two statements. Where entities restate or reclassify comparative information, they are required to present a restated financial statement as at the beginning of comparative period, in addition to the current requirement to present financial statement at the end of the current period and comparative period.

The Company has adopted two linked statements approach and has prepared a Profit and Loss Account and a Statement of Comprehensive Income to reflect these changes.

IFRS - 7 "Financial Instruments: Disclosures", (Amendments)

The amendment requires enhanced disclosures about fair value measurement and liquidity risk. In particular, the amendment requires disclosure of fair value measurements by level of a fair value measurement hierarchy. As the change only results in additional disclosures, the amendment is not expected to have a significant effect on the Company's financial statements.

IFRS - 8 "Operating Segments"

The standard requires disclosure of information about the Company's operating segments and replaces the requirement to determine primary and secondary reporting segments. Adoption of this standard does not have any effect on the financial position or performance of the Company. The Company determined that the operating segments were the same as the business segments as previously identified under IAS-14 'Segment Reporting'.

2.4 Standards and interpretations that become effective but not relevant to the Company:

The following standards (revised or amended) and interpretations became effective for the current financial year but are either not relevant or do not have any material effect on the financial statements of the Company:

IFRS - 3	Business Combinations (Revised)
IAS - 23	Borrowing Costs (Revised)
IAS - 27	Consolidated and Separate Financial Statements (Revised)
IAS - 32	Financial Instruments (Amended for Puttable instruments and obligations arising on liquidation).
IAS - 39	Financial Instruments : Recognition and Measurement (Amended)
IFRIC - 15	Agreements for the Construction of Real Estate
IFRIC - 16	Hedges of a Net Investment in a Foreign Operation
IFRIC - 17	Distributions of Non-cash Assets to Owners
IFRIC - 18	Transfers of Assets from Customers

2.5 Standards, interpretations and amendments to approved accounting standards that are not yet effective :

The following revised standards and interpretations with respect to approved accounting standards as applicable in Pakistan would be effective from the dates mentioned below against the respective revised standard and interpretation.

Standard or interpretations		Effective date (accounting periods beginning on or after)
IAS - 24	Related Party Disclosures (Revised)	January 1, 2011
IAS - 32	Financial Instruments: Presentation - Amendments relating to Classification of Rights Issues	February 1, 2010
IFRS - 2	Share-based payment: Amendments relating to Group Cash - settled Share-based Payment Transactions	January 1, 2010
IFRS - 9	Financial Instruments: Classification and Measurement	January 1, 2013
IFRIC - 14	IAS 19 - The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction (Amendment)	January 1, 2011
IFRIC - 19	Extinguishing Financial Liabilities with Equity Instruments.	July 1, 2010

The Company expects that the adoption of the above revision, amendments and interpretations of the standards will not have any material impact on the Company's financial statements in the period of initial application except for certain additional disclosures.

There are certain other additions to various accounting standards which have also been issued by the IASB as a result of its annual improvement project in April 2009 and May 2010. Such improvements are generally effective for accounting periods beginning on or after January 1, 2010 and July 1, 2010 respectively. The Company expects that such improvements of the standards will not have any material impact on the Company's financial statements in the period of initial application.

2.6 Basis of preparation

These financial statements have been prepared under historical cost convention, except for long-term investments which have been recognised at fair value in accordance with the requirements of IAS-39 "Financial Instruments: Recognition and Measurement".

2.7 Fixed assets

2.7.1 Property, plant and equipment

These are stated at cost less accumulated depreciation / amortization / impairment, if any, except for freehold land and capital work-in-progress which are stated at cost.

Significant borrowing costs related to acquisition, construction or production of a qualifying asset is capitalized.

Depreciation is charged to profit and loss account applying the reducing balance method. Depreciation on additions is charged from the month in which the asset is put to use and on disposals up to the month the asset is in use, in line with the recommendations of the Institute of Chartered Accountants of Pakistan. Assets residual values and useful lives are reviewed, and adjusted, if appropriate at each balance sheet date.

Maintenance and normal repairs are charged to profit and loss account as and when incurred. Major renewals and improvements are capitalized. Gain or loss on disposal of assets is included in profit and loss account.

2.7.2 Capital work-in-progress

Capital work-in-progress, machinery in transit and advances to suppliers made in respect of fixed assets are stated at cost and are transferred to the respective assets when available for intended use.

Significant borrowing costs related to acquisition, construction or production of a qualifying asset is capitalized.

2.8 Long-term investments - Available for sale

Long-term investments are classified as available for sale. All investments are initially recognised at cost, being the fair value of the consideration given. Subsequent to initial recognition, these investments are re-measured at fair value (quoted market price).

Any gain or loss from a change in the fair value of investments available for sale is recognised directly in equity as unrealised, unless sold, collected or otherwise disposed off, or until the investment is determined to be impaired, at which time cumulative gain or loss previously taken to equity is released to the profit and loss account of the year.

2.9 Stores and spares

These are valued at the lower of moving average cost and net realisable value except for items in transit which are valued at actual cost. Provision is made for obsolescence and slow moving items.

2.10 Stock-in-trade

These are valued as follows:

Raw materials	At the lower of average cost and net realisable value
Work-in-process	At the lower of average cost and net realisable value
Finished goods	At the lower of average cost and net realisable value
Fertilizers	At the lower of cost on FIFO basis and net realisable value

2.11 Trade debts and other receivables

Trade debts are recognised and carried at original invoice amount less an allowance for any uncollectible amounts. Other receivables are carried at cost less estimates made for doubtful receivables.

An estimate for doubtful trade debts and other receivables is made when collection of the full amount is no longer probable. Bad debts are written off when identified.

2.12 Cash and cash equivalents

Cash and cash equivalents are carried in the balance sheet at cost. For the purposes of the cash flow statement, cash and cash equivalents comprise of cash in hand, with banks on current, savings, treasury call and deposit accounts net of short term borrowings under mark-up arrangements, if any.

2.13 Staff retirement benefits

2.13.1 Staff gratuity

The Company operates an approved defined benefit gratuity scheme for all permanent employees. Minimum qualifying period for entitlement to gratuity is five years continuous service with the Company. The scheme is funded and contributions to the fund are made in accordance with the recommendations of the actuary.

The latest actuarial valuation of the gratuity scheme was carried out as at September 30, 2010. The projected unit credit method, using the following significant assumptions, have been used for actuarial valuation.

Discount rate	14% per annum compound
Expected rate of return on investments	14% per annum
Expected rate of increase in salaries	13% per annum

Based on the actuarial valuation of gratuity scheme as of September 30, 2010, the fair value of gratuity scheme assets and liabilities were Rs.60.483 million and Rs.59.586 million respectively. The Company recognises the total actuarial gains and losses in the year in which they arise. The amounts recognised in balance sheet are as follows:

	2010	2009
	(Rupees in thousands)	
Present value of defined benefit obligation	59,586	50,343
Fair value of plan assets	(60,483)	(48,718)
Net (asset) / liability recognised in the balance sheet	(897)	1,625

Movement in the net (asset) / liability recognised in the balance sheet is as follows:

	2010	2009
Opening balance	1,625	(137)
Charge for the year	4,384	4,557
Contribution during the year	(6,906)	(2,795)
Closing balance	(897)	1,625

The following amounts have been charged in the profit and loss account for the year ended September 30, 2010 in respect of these benefits.

	2010	2009
	(Rupees in thousands)	
Current service cost	2,495	2,484
Interest cost	5,035	5,450
Expected return on plan assets	(4,837)	(5,466)
Actuarial loss recognised	1,691	2,089
Gratuity cost for the year ended September 30, 2010	4,384	4,557

Actual return on plan assets is Rs. 6.640 (2009: Rs. 5.970) million.

Amounts for the current period and previous four annual periods of the fair value of plan assets, present value of defined benefit obligation and surplus / (deficit) arising thereon are as follows:

As at September 30,	2010	2009	2008	2007	2006
			(Rupees in thousands)		
Fair value of plan assets	60,483	48,718	41,506	35,459	32,228
Present value of benefit obligation	(59,586)	(50,343)	(41,369)	(37,183)	(32,006)
Surplus / (Deficit)	897	(1,625)	137	(1,724)	222

2.13.2 Provident fund

The Company operates a recognised provident fund scheme for all its permanent employees. Equal contributions are made by the Company and the employees at the rate of 8.33% of basic salary plus applicable cost of living allowance.

2.13.3 Compensated absences

The Company provides for its estimated liability towards leaves accumulated by employees on an accrual basis using current salary level.

2.14 Borrowings and their cost

Borrowings are recorded at the proceeds received.

Borrowing costs are recognised as an expense in the period in which these are incurred except to the extent of borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset. Such borrowing costs, if any, are capitalized as part of the cost of that asset.

2.15 Trade and other payables

Liabilities for trade and other payables are carried at cost which is the fair value of the consideration to be paid in the future for goods and services received, whether or not billed to the Company.

2.16 Taxation

2.16.1 Current

Provision for current taxation is computed in accordance with the provisions of the applicable Income Tax laws.

2.16.2 Deferred

Deferred tax is recognised using the balance sheet liability method, on all temporary differences arising between the tax bases of assets and liabilities and their carrying amounts appearing in the financial statements. Deferred tax liabilities are recognised for all taxable temporary differences. Deferred tax assets are recognised for all deductible temporary differences to the extent that it is probable that the temporary differences will reverse in the future and taxable income will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax assets to be utilised.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates that have been enacted or substantially enacted by the balance sheet date.

2.17 Impairment

The carrying amounts of the Company's assets are reviewed annually to determine whether there is any indication of impairment. If any such indication exists, the assets recoverable amount is estimated and impairment losses are recognised in the profit and loss account.

2.18 Provisions

Provisions are recognised when the Company has a present legal or constructive obligation as a result of past events, if it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the amount can be made. Provisions are reviewed periodically and adjusted to reflect the current best estimate.

2.19 Foreign currencies

Transactions in foreign currencies are translated into Pak rupees which is the Company's functional and presentation currency, at the rates of exchange prevailing on the date of transactions. Monetary assets and liabilities in foreign currencies are translated into Pak rupees at the rates of exchange ruling on the balance sheet date.

Exchange gains and losses are included in profit and loss account.

2.20 Revenue recognition

Sales are recorded on despatch of goods to customers.
Income on long-term investments is recorded when the right to receive is established.
Income / profit on bank treasury call and deposit accounts is recorded on accrual basis.
Storage income is recorded on accrual basis.

2.21 Segment reporting

Business segments provide products that are subject to risks and returns that are different from those of other business segments.

2.22 Financial instruments

All the financial assets and financial liabilities are recognised at the time when the Company becomes a party to the contractual provisions of the instrument. Financial assets are derecognised at the time when the Company loses control of the contractual rights that comprises the financial assets. All financial liabilities are derecognised at the time when they are extinguished, that is, when the obligation specified in the contract is discharged, cancelled, or expires. Any gains or losses on derecognition of financial assets and financial liabilities are taken to profit and loss account currently.

2.23 Offsetting

Financial assets and liabilities are offset when the Company has a legally enforceable right to offset and intends to settle either on a net basis or to realise the asset or settle the liability simultaneously.

	Note	2010	2009
		(Rupees in thousands)	
3. Fixed Assets			
Property, plant and equipment			
Operating fixed assets	3.1	760,509	790,891
Capital work-in-progress	3.4	57,351	43,533
		817,860	834,424

3.1 The following is a statement of operating fixed assets for 2010:

	Cost / book value as at Oct. 1, 2009	Additions / (disposals)	Cost / book value as at Sept. 30, 2010	Accum-ulated deprec-iation as at Oct. 1, 2009	Depre-ciation / amortization charge for the year & accum-lated deprec-iation on deletions	Accum-ulated deprec-iation / amortization / impairment as at Sept. 30, 2010	Written down value as at Sept. 30, 2010	Annual rate of deprec-iation / amortiz-ation %
	(Rupees in thousands)							
Land								
Freehold - Sugar / Distillery division	10,984	–	10,984	–	–	–	10,984	–
Leasehold - Textile division	489	–	489	201	5	206	283	1.01
Buildings on freehold land								
Sugar division	52,527	24,687	77,214	46,176	1,350	47,526	29,688	10
Distillery division	21,243	–	21,243	12,877	837	13,714	7,529	10
Non-factory buildings	30,228	–	30,228	19,919	516	20,435	9,793	5
Buildings on leasehold land								
Textile division	16,480	–	16,480	14,072	241	14,313	2,167	10
Plant and machinery								
Sugar division	930,999	5,124 (1,271)	934,852	557,550	37,686 (655)	594,581	340,271	10
Distillery division - Note 3.1.1	582,909	19,849	602,758	226,429	36,042	262,471	340,287	10
Textile division	44,330	–	44,330	32,381	1,195	33,576	10,754	10
Railway siding - Sugar division	468	–	468	457	1	458	10	10
Electric, gas and water installations								
Sugar / Distillery division	8,808	–	8,808	7,677	113	7,790	1,018	10
Textile division	2,766	–	2,766	2,253	51	2,304	462	10
Furniture, fittings, electrical and office equipment								
Sugar / Distillery division	42,981	591 (444)	43,128	36,741	1,614 (412)	37,943	5,185	25
Textile division	8,700	–	8,700	7,773	232	8,005	695	25
Tractors / trolleys and agriculture implements								
Sugar division	2,765	–	2,765	2,474	58	2,532	233	20
Motor cars / vehicles								
Sugar / Distillery division	3,547	308 (367)	3,488	2,492	230 (273)	2,449	1,039	20
Textile division	815	–	815	676	28	704	111	20
2010	1,761,039	50,559 (2,082)	1,809,516	970,148	80,199 (1,340)	1,049,007	760,509	

3.1.1 Plant and machinery of Distillery division include storage tanks of the CO2 unit having written down value of Rs. 28.88 million installed at customers' premises.

3.1.2 Reconciliation of carrying values for 2010

	Written down value as at Oct. 1, 2009	Additions / (disposals)	Depreciation / amortization charge for the year	Written down value as at Sept. 30, 2010
	(Rupees in thousands)			
Land	11,272	–	5	11,267
Buildings on freehold land	25,026	24,687	2,703	47,010
Buildings on leasehold land	2,408	–	241	2,167
Plant and machinery	741,878	24,973	74,923	691,312
		(1,271)	(655)	
Railway siding	11	–	1	10
Electric, gas and water installations	1,644	–	164	1,480
Furniture, fittings, electrical and office equipment	7,167	591	1,846	5,880
		(444)	(412)	
Tractors / trolleys and agriculture implements	291	–	58	233
Motor cars / vehicles	1,194	308	258	1,150
		(367)	(273)	
	790,891	50,559	80,199	760,509
		(2,082)	(1,340)	

3.1.3 The following is a statement of operating fixed assets for 2009:

	Cost / book value as at Oct. 1, 2008	Additions / (disposals)	Cost / book value as at Sept. 30, 2009	Accum-ulated deprec-iation as at Oct. 1, 2008	Depre-ciation / amortization charge for the year & accum-lated deprec-iation on deletions	Accum-ulated deprec-iation / amortization / impairment as at Sept. 30, 2009	Written down value as at Sept. 30, 2009	Annual rate of deprec-iation / amortiz-ation %
	(Rupees in thousands)							
Land								
Freehold - Sugar / Distillery division	10,984	–	10,984	–	–	–	10,984	–
Leasehold - Textile division	489	–	489	196	5	201	288	1.01
Buildings on freehold land								
Sugar division	52,527	–	52,527	45,471	705	46,176	6,351	10
Distillery division	21,243	–	21,243	11,948	929	12,877	8,366	10
Non-factory buildings	30,228	–	30,228	19,376	543	19,919	10,309	5
Buildings on leasehold land								
Textile division	16,480	–	16,480	13,804	268	14,072	2,408	10
Plant and machinery								
Sugar division	868,867	66,697 (4,565)	930,999	522,721	38,457 (3,628)	557,550	373,449	10
Distillery division	448,131	134,778	582,909	193,678	32,751	226,429	356,480	10
Textile division	44,330	–	44,330	31,053	1,328	32,381	11,949	10
Railway siding - Sugar division	468	–	468	455	2	457	11	10
Electric, gas and water installations								
Sugar / Distillery division	8,808	–	8,808	7,552	125	7,677	1,131	10
Textile division	2,766	–	2,766	2,196	57	2,253	513	10
Furniture, fittings, electrical and office equipment								
Sugar / Distillery division	41,989	1,514 (522)	42,981	35,379	1,858 (496)	36,741	6,240	25
Textile division	8,442	258	8,700	7,481	292	7,773	927	25
Tractors / trolleys and agriculture implements								
Sugar division	2,765	–	2,765	2,401	73	2,474	291	20
Motor cars / vehicles								
Sugar / Distillery division	3,543	321 (317)	3,547	2,445	256 (209)	2,492	1,055	20
Textile division	773	42	815	643	33	676	139	20
2009	1,562,833	203,610 (5,404)	1,761,039	896,799	77,682 (4,333)	970,148	790,891	

3.1.4 Reconciliation of carrying values for 2009

	Written down value as at Oct. 1, 2008	Additions / (disposals)	Depreciation / amortization charge for the year	Written down value as at Sept. 30, 2009
	(Rupees in thousands)			
Land	11,277	–	5	11,272
Buildings on freehold land	27,203	–	2,177	25,026
Buildings on leasehold land	2,676	–	268	2,408
Plant and machinery	613,876	201,475	72,536	741,878
		(4,565)	(3,628)	
Railway siding	13	–	2	11
Electric, gas and water installations	1,826	–	182	1,644
Furniture, fittings, electrical and office equipment	7,571	1,772	2,150	7,167
		(522)	(496)	
Tractors / trolleys and agriculture implements	364	–	73	291
Motor cars / vehicles	1,228	363	289	1,194
		(317)	(209)	
	666,034	203,610	77,682	790,891
		(5,404)	(4,333)	

3.2 Depreciation / amortization charge for the year has been allocated as follows:

	Note	2010	2009
		(Rupees in thousands)	
Cost of Sales			
Sugar division	21	40,332	40,628
Distillery division	21	36,919	33,725
Textile division	21	1,492	1,657
		78,743	76,010
Administrative expenses			
Sugar division	23	866	974
Distillery division	23	74	84
Textile division	23	260	325
Terminal	20.6	256	289
		1,456	1,672
		80,199	77,682

3.3 The following are the details of fixed assets disposed off:

	Cost	Accumulated depreciation	Book value	Sale proceeds	Gain on disposal	Mode of disposal	Particulars of purchasers
	(Rupees in thousands)						
Plant and machinery							
Sugar division	1,271	655	616	696	80	Negotiation	Syed Azam Hussain, Masjid Road Nawabshah.
	1,271	655	616	696	80		
Furniture, fittings, electrical and office equipment							
Sugar division							
Furniture & fittings	9	8	1	3	2	Negotiation	Various Employees at Nawabshah
Office equipment	435	404	31	40	9	“	Syed Azam Hussain, Masjid Road Nawabshah.
	444	412	32	43	11		
Motor cars / vehicles							
Sugar division							
Motor cars	11	–	11	700	689	Tender	Mr. Jan Mohammad s/o Noor Mohammad House No. A-52, North Nazimabad Block-H, Karachi.
“	165	165	–	20	20	“	Mr. Ali Rahim, 15-B, East Avenue Phase-1, Defence Housing Society Karachi.
“	100	57	43	500	457	“	Mr. Muhammad Ahmed s/o Ismail Flat # 102, Al Zehra Pride, Suppariwala Street Garden East, Karachi.
“	12	5	7	600	593	“	Mr. Muhammad Abdul Qudoos Kiyani House No. A-112, Lane 1, Qauid-e-Azam Colony Dhamial Champ, Rawalpindi.
Motor cycle	39	22	17	27	10	Claim	M/s. Habib Insurance Co. Ltd. Habib Square, M.A. Jinnah Road, Karachi.
“	40	24	16	16	–	Tender	Mr. Ali Raza, Flat # 6, 3rd Floor, Abbas Manzil, Soldiar Bazar, Karachi.
	367	273	94	1,863	1,769		
2010	2,082	1,340	742	2,602	1,860		
2009	5,404	4,333	1,071	3,433	2,362		

3.4 Capital work-in-progress - at cost

	Note	2010	2009
		(Rupees in thousands)	
Plant and machinery		57,351	39,833
Advances to suppliers		–	3,700
	3.4.1	57,351	43,533

	Note	2010	2009
		(Rupees in thousands)	
3.4.1 Movement in capital work-in-progress			
Balance as on October 1,		43,533	124,807
Additions during the year		63,477	120,201
		107,010	245,008
Capitalized during the year		(49,659)	(201,475)
		57,351	43,533

4. Long-term investments

Available for sale

Fully paid-up Ordinary Shares, and Unit Certificates of quoted companies are as follows:

Number of shares / units certificates 2009	2010	Face value Rs.	Company's Name	2010 (Rupees in thousands)	2009
4.1 Investments in related parties					
147,797	147,797	5	Balochistan Particle Board Limited	148	369
10,148,602	12,178,322	10	Bank AL Habib Limited	378,137	317,144
–	981,643	100	First Habib Income Fund	100,491	–
3,467,490	3,467,490	5	Habib Insurance Company Limited	36,374	55,098
				515,150	372,611
4.2 Investments in other companies					
–	11,000	10	Adamjee Insurance Company Limited	716	–
138,375	88,375	10	Bank Al Falah Limited	725	1,739
48,851	48,851	10	Dawood Lawrencepur Limited	2,042	2,045
259,190	285,109	10	Engro Chemical Pakistan Limited	49,669	46,877
98,406	143,406	10	Fauji Fertilizer Company Limited	15,035	10,111
514,000	514,000	5	First Habib Modaraba	3,079	2,889
267,197	526,948	10	Habib Metropolitan Bank Limited	10,086	8,262
54,000	54,000	10	Honda Atlas Cars (Pakistan) Limited	566	1,142
–	6,000	10	International Industries Limited	293	–
51,865	57,051	10	MCB Bank Limited	10,743	11,466
–	10,000	10	Millat Tractor Limited	5,704	–
15,552	–	10	Meezan Bank Limited	–	219
27,500	–	10	My Bank Limited	–	133
5,640	6,768	10	New Jubliee Insurance Company Limited	379	315
46,229	46,229	10	Oil and Gas Development Company Ltd.	6,736	4,964
19,650	19,650	10	Pak Suzuki Motor Company Limited	1,361	1,710
50,000	–	10	Pakistan Telecommunication Co. Ltd. (A)	–	999
14,507	14,507	10	Pakistan Tobacco Company Limited	1,618	1,552
20,000	20,000	10	Packages Limited	2,020	3,252
50,000	–	10	Samba Bank Limited	–	185
1,881,585	1,881,585	5	Shabbir Tiles and Ceramics Limited	16,182	27,095
513,842	–	10	Soneri Bank Limited	–	5,673
71,683	71,683	10	Sui Northern Gas Pipelines Limited	2,212	2,010
374,319	449,182	5	Thal Limited	47,685	46,195
38,500	38,500	10	The Royal Bank of Scotland Limited	231	770
100,000	50,000	10	TRG Pakistan Limited	199	244
28,627	34,492	100	Unit Trust of Pakistan	3,001	3,252
				180,282	183,099
				695,432	555,710

4.3 The aggregate book value of the above referred investments, net of impairment, is Rs.197.450 (2009: Rs.88.756) million.

4.4 The above investments are stated at fair value. Unrealised gain of Rs.31.027 (2009: Rs.23.380) million arising from a change in the fair value of these investments during the current year has been recognised directly in equity whereas impairment in the Ordinary shares of Rs.Nil (2009: Rs.27.134) million has been charged to the profit and loss account.

	Note	2010	2009
		(Rupees in thousands)	
5. Long-term loans			
Secured - considered good			
Executives	5.1 & 5.2	1,439	2,180
Employees		6,801	5,849
		8,240	8,029
Receivable within next twelve months shown under current assets:			
Executives	9	(549)	(728)
Employees	9	(3,831)	(3,282)
		(4,380)	(4,010)
		3,860	4,019

5.1 These loans are given to executives for purchase of assets and are secured against pledge of title documents / lien marked over retirement benefits. Movement of loans to executives during the year was as follows:

	2010	2009
Balance as on October 1,	2,180	1,997
Disbursements	–	1,500
	2,180	3,497
Repayments	(741)	(1,317)
	1,439	2,180

5.2 The maximum aggregate amount due from executives at the end of any month during the year was Rs. 2.08 (2009: Rs. 2.50) million.

6. Stores and spares

	2010	2009
Stores	52,330	42,767
Provision for obsolescence and slow moving stores	(9,500)	(9,500)
	42,830	33,267
Spares	45,744	44,619
Provision for obsolescence and slow moving spares	(19,792)	(19,500)
	25,952	25,119
	68,782	58,386

	Note	2010	2009
		(Rupees in thousands)	
6.1 Provision for obsolescence and slow moving stores and spares			
Balance as on October 1,			
Stores		9,500	8,000
Spares		19,500	14,000
		29,000	22,000
Provision / (Reversal) made during the year			
Stores		–	1,500
Spares –Provision		675	5,500
	21	675	7,000
–Reversal		(383)	–
		292	7,000
		29,292	29,000
7. Stock-in-trade			
Raw materials			
Distillery division		171,169	52,471
Textile division		429	404
		171,598	52,875
Work-in-process			
Sugar division		890	558
Textile division		8,801	2,580
		9,691	3,138
Finished goods			
Sugar division		13,650	104,998
Distillery division		121,203	49,275
Textile division		1,950	110
		136,803	154,383
Fertilizers		1,284	643
		319,376	211,039
8. Trade debts			
Considered good			
Export – Secured against export documents		39,294	29,547
Local – Unsecured		74,884	323,850
		114,178	353,397
8.1 The aging of trade debts at September 30 is as follows :			
Neither past due nor impaired		108,415	343,441
Past due but not impaired:			
within 90 days		–	2,244
91 to 180 days		90	2,132
over 180 days		5,673	5,580
		114,178	353,397

	Note	2010	2009
		(Rupees in thousands)	

9. Loans and advances

	Note	2010	2009
Considered good			
Current maturity of long-term loans			
Executives	5	549	728
Employees	5	3,831	3,282
		4,380	4,010
Advances			
Employees		68	31
Suppliers		54,293	164,449
		54,361	164,480
		58,741	168,490

10. Trade deposits and short-term prepayments

		2010	2009
Trade deposits		1,124	–
Short-term prepayments		7,647	7,904
		8,771	7,904

11. Other receivables

		2010	2009
Duty drawback and research & development support claim		4,356	3,716
Others		1,859	1,598
		6,215	5,314

12. Cash and bank balances

	Note	2010	2009
Cash in hand		151	163
Balances with banks on:			
Current accounts		12,694	16,705
Treasury call accounts	12.1	244,423	1,578,799
Term deposits	12.2	1,050,000	–
	12.3	1,307,117	1,595,504
		1,307,268	1,595,667

12.1 Profit rates on treasury call accounts ranged between 10% and 11% (2009: 10% and 12.5%) per annum.

12.2 Profit rates on term deposits ranged between 11% and 11.75% (2009: Nil) per annum.

12.3 Includes Rs. 582.118 (2009: Rs. 760.723) million kept with Bank AL Habib Limited - a related party.

13. Issued, subscribed and paid-up capital

Number of shares		2010	2009
10,136,700	(2009: 10,136,700) Ordinary shares of Rs. 5 each fully paid in cash	50,684	50,684
109,863,300	(2009: 85,863,300) Ordinary shares of Rs. 5 each issued as fully paid bonus shares, including 24,000,000 Ordinary shares issued during the year	549,316	429,316
120,000,000		600,000	480,000

Issued, subscribed and paid-up capital of the Company includes 19,649,470 Ordinary shares of Rs. 5 each (2009: 10,043,738) held by related parties at the end of the year.

	Note	2010	2009
		(Rupees in thousands)	
14. Reserves			
Capital			
Share premium		34,000	34,000
Revenue			
General	14.1	1,181,000	981,000
Unappropriated profit		538,241	491,706
		1,753,241	1,506,706
14.1 At the beginning of the year		981,000	786,000
Transfer from unappropriated profit		200,000	195,000
		1,181,000	981,000
15. Deferred taxation			
Deferred tax liability on taxable temporary difference:			
Accelerated tax depreciation on operating fixed assets		95,000	96,000
Deferred tax asset on deductible temporary difference:			
Provision for obsolescence and slow moving stores & spares		(8,500)	(8,500)
		86,500	87,500
16. Trade and other payables			
Creditors		268,752	556,637
Accrued liabilities		62,513	56,523
Advance from customers		38,935	58,558
Sales-tax payable		12,938	30,976
Workers' Profit Participation Fund	16.1	40,835	35,205
Workers' Welfare Fund		30,416	24,915
Income-tax deducted at source		133	259
Unclaimed dividends		14,887	11,241
		469,409	774,314
16.1 Workers' Profit Participation Fund			
Balance as at October 1,		35,205	27,083
Interest on funds utilized in the Company's business		538	1,308
		35,743	28,391
Amount paid to the Trustees		(35,743)	(28,391)
		–	–
Allocation for the year	24	40,835	35,205
		40,835	35,205

	Note	2010	2009
		(Rupees in thousands)	
17. Short-term borrowings - secured	17.1	–	426,000

17.1 Short-term borrowing facilities are secured by way of registered charge against hypothecation of stock-in-trade, stores & spares and assignment of trade debts and other receivables. The rate of mark-up during the year ranged from 7.5% to 14.09% (2009: 7.5%) per annum.

The facility for short-term borrowings amounts to Rs.2,275 (2009: Rs.1,975) million.

	2010	2009
	(Rupees in thousands)	
18. Provision for income tax - net	28,931	60,400

18.1 The return of income tax for the tax year 2010 (financial year ended September 30, 2009) has been filed and the proceedings under Section 122(5A) of the Income Tax Ordinance, 2001 have been initiated and the same are under process.

18.2 The Company received notices from the Honourable High Court of Sindh for appeals filed by the tax authorities for the tax years 1998, 2001 and 2002 (corresponding financial years ended September 30, 1997, 2000 and 2001 respectively) against decisions of the Income Tax Appellate Tribunal, which were earlier decided in favour of the Company with respect to rejection of trading results of the Sugar division. The tax exposure against these appeals in aggregate amounts to Rs. 14.60 million. Based on the advise of its legal counsel, the Company is confident for a favourable out come and no provision for the aforsaid amount has been made in these financial statements.

19. Contingencies and Commitments

19.1 Contingencies

19.1.1 The Company has provided counter guarantees to banks, aggregating to Rs.145.074 (2009: Rs.297.057) million against agriculture finance facilities to growers and guarantees issued by banks in favour of third parties on behalf of the Company.

19.1.2 During the year the Company received show cause notice from Competition Commission of Pakistan (CCP) under section 30 of the Competition Ordinance, 2007 for violation of various sections of this Ordinance. The Company alongwith other sugar mills filed a Constitutional Petition before the Honourable High Court of Sindh challenging the Competition Ordinance, 2007. The Honourable High Court of Sindh, granted stay against the proceedings of the CCP and restrained the Commission to pass final order in respect of the show cause notice. The Competition Commission of Pakistan filed an appeal before the Honourable Supreme Court of Pakistan which was disposed of by the court based on the grounds that the matter was pending before the Honourable High Court of Sindh.

In the meanwhile, a new Ordinance named Competition Commission Ordinance, 2009 was promulgated. The Company alongwith other sugar mills filed a Constitutional Petition before the Honourable High Court of Sindh challenging the Competition Commission Ordinance, 2009 being ultra vires.

The case was lastly fixed on December 9, 2010 for filing of amended petition before Honourable High Court of Sindh to hold and declare that the Competition Act, 2010 notified in the Official Gazette on October 13, 2010 is ultra vires the Constitution. Since the financial impact is not determinable at this stage no liability is reflected in these financial statements.

19.1.3 During the year the Company alongwith other sugar mills has filed a Constitutional Petition before the Honourable High Court of Sindh against Pakistan Standards and Quality Control Authority - PSQCA (the Authority) challenging the notification issued in respect of charging marking fee under PSQCA Act-VI of 1996. The Authority has demanded a payment at the rate of 0.1% of ex-factory price with effect from January 1, 2009. The Company is of the view that the impunged notifications so raised are without any lawful authority under the PSQCA Act-VI of 1996 and are in violation of the Constitution. The Honourable High Court of Sindh has maintained that prima facie it appears that the impugned notifications have been issued without lawful authority and in the meanwhile the opterations of the impugned notifications have been suspended. Based on the advise of our legal counsel, the Company is confident for a favourable outcome.

	2010	2009
	(Rupees in thousands)	
19.2 Commitments		
19.2.1 Capital expenditure	2,259	10,150
19.2.2 Rentals under operating lease agreements with First Habib Modaraba in respect of vehicles, payable over the following next four years, are as follows:		
Year ending September 30		
2010	–	9,609
2011	10,088	7,101
2012	7,292	4,305
2013	4,309	1,321
2014	1,961	–
	23,650	22,336

20. Segment operating results and related information

(Rupees in thousands)

	Note	Sugar Division		Distillery Division		Textile Division		Trading Division		Total	
		2010	2009	2010	2009	2010	2009	2010	2009	2010	2009
Net sales and services											
Net sales	20.5	4,056,695	2,873,364	1,552,666	1,335,674	238,616	277,134	70,452	97,167	5,918,429	4,583,339
Services – Storage income – net	20.6	–	–	909	847	–	–	–	–	909	847
		4,056,695	2,873,364	1,553,575	1,336,521	238,616	277,134	70,452	97,167	5,919,338	4,584,186
Less: Cost of sales	21	3,298,634	2,371,776	1,370,932	1,015,520	225,085	256,336	65,632	76,589	4,960,283	3,720,221
Gross profit		758,061	501,588	182,643	321,001	13,531	20,798	4,820	20,578	959,055	863,965
Distribution and marketing expenses	22	40,428	66,065	77,516	62,456	9,931	11,173	254	1,424	128,129	141,118
Administrative expenses	23	83,275	70,873	4,256	3,022	3,090	4,539	3,005	1,244	93,626	79,678
		123,703	136,938	81,772	65,478	13,021	15,712	3,259	2,668	221,755	220,796
Profit before other operating expenses, impairment on long-term investments and other operating income		634,358	364,650	100,871	255,523	510	5,086	1,561	17,910	737,300	643,169
Other operating expenses	24									(57,169)	(49,287)
Impairment on long-term investments - available for sale										–	(27,134)
Other operating income	25									41,467	26,258
Operating profit										721,598	593,006
20.1 Segment assets		529,905	876,161	777,911	695,145	114,252	116,845	–	–	1,422,068	1,688,151
Unallocated assets										2,013,994	2,118,358
										3,436,062	3,806,509
20.2 Segment liabilities		407,034	733,957	70,385	474,317	19,685	14,134	308	1,254	497,412	1,223,662
Unallocated liabilities										87,428	129,187
										584,840	1,352,849
20.3 Capital expenditure		37,022	42,575	27,355	79,461	–	300	–	–	64,377	122,336

20.4 Company accounts for inter-segment revenue / transfers at arm's length.

		Sugar Division		Distillery Division		Textile Division		Trading Division		Total	
		2010	2009	2010	2009	2010	2009	2010	2009	2010	2009
20.5	**Net sales**										
	Local sales	4,258,135	3,245,773	321,076	235,909	–	–	43,745	–	4,622,956	3,481,682
	Less: Sales-tax and special excise duty	201,440	372,409	43,572	31,521	–	–	–	–	245,012	403,930
	Discount	–	–	431	503	–	–	–	–	431	503
		201,440	372,409	44,003	32,024	–	–	–	–	245,443	404,433
		4,056,695	2,873,364	277,073	203,885	–	–	43,745	–	4,377,513	3,077,249
	Export sales	–	–	1,292,242	1,135,859	251,957	292,304	26,707	106,353	1,570,906	1,534,516
	Less: Freight and commission	–	–	16,649	4,070	13,341	15,170	–	9,186	29,990	28,426
		–	–	1,275,593	1,131,789	238,616	277,134	26,707	97,167	1,540,916	1,506,090
		4,056,695	2,873,364	1,552,666	1,335,674	238,616	277,134	70,452	97,167	5,918,429	4,583,339
20.6	**Services - Storage income - net**										
	Terminal rental income	–	–	5,677	6,162	–	–	–	–	5,677	6,162
	Less: Terminal expenses										
	Salaries, wages and other benefits - note 20.7	–	–	2,398	2,566	–	–	–	–	2,398	2,566
	Repairs and maintenance	–	–	448	638	–	–	–	–	448	638
	Water, electricity and gas	–	–	385	428	–	–	–	–	385	428
	Rent, rates and taxes	–	–	775	761	–	–	–	–	775	761
	Depreciation	–	–	256	289	–	–	–	–	256	289
	Travelling and vehicle running expenses	–	–	173	304	–	–	–	–	173	304
	Insurance	–	–	100	69	–	–	–	–	100	69
	Other expenses	–	–	233	260	–	–	–	–	233	260
		–	–	4,768	5,315	–	–	–	–	4,768	5,315
		–	–	909	847	–	–	–	–	909	847

20.7 Salaries, wages and other benefits include a sum of Rs. 0.19 (2009: Rs. 0.36) million in respect of staff retirement benefits.

(Rupees in thousands)

21. Cost of sales

	Sugar Division 2010	Sugar Division 2009	Distillery Division 2010	Distillery Division 2009	Textile Division 2010	Textile Division 2009	Trading Division 2010	Trading Division 2009	Total 2010	Total 2009
Opening stock of raw material	–	–	52,471	17,994	404	467	–	–	52,875	18,461
Purchases	2,999,653	2,018,661	1,349,995	751,236	8,703	9,814	–	–	4,358,351	2,779,711
	2,999,653	2,018,661	1,402,466	769,230	9,107	10,281	–	–	4,411,226	2,798,172
Closing stock of raw material	–	–	(171,169)	(52,471)	(429)	(404)	–	–	(171,598)	(52,875)
Raw material consumed	2,999,653	2,018,661	1,231,297	716,759	8,678	9,877	–	–	4,239,628	2,745,297
Semi finished goods purchased	–	–	–	–	112,964	162,859	–	–	112,964	162,859
	2,999,653	2,018,661	1,231,297	716,759	121,642	172,736	–	–	4,352,592	2,908,156
Salaries, wages and other benefits - note 21.1	112,043	101,904	31,627	29,879	5,998	8,680	–	–	149,668	140,463
Research and development expenses	2,142	1,342	–	–	–	–	–	–	2,142	1,342
Process chemicals	20,437	22,206	19,443	12,139	–	–	–	–	39,880	34,345
Packing material	28,765	32,690	–	–	3,501	4,113	–	–	32,266	36,803
Dyeing, weaving and other charges	–	–	–	–	1,590	1,630	–	–	1,590	1,630
Provision for obsolescence and slow moving stores & spares - note 6.1	–	6,000	675	1,000	–	–	–	–	675	7,000
Stores and spares consumed	43,587	47,369	11,520	8,232	11	51	–	–	55,118	55,652
Rent, rates, taxes and lease rentals	6,288	5,809	4,538	4,192	410	943	–	–	11,236	10,944
Water, fuel and power	26,751	28,929	75,509	76,744	4,950	5,782	–	–	107,210	111,455
Repairs and maintenance	106,177	91,605	22,005	22,907	1,252	1,896	–	–	129,434	116,408
Legal and professional charges	2,946	2,018	–	–	–	–	–	–	2,946	2,018
Insurance	5,174	4,209	5,412	3,985	169	176	–	–	10,755	8,370
Postage, telephone and stationery	3,022	2,167	–	–	–	–	–	–	3,022	2,167
Depreciation / amortization	40,332	40,628	36,919	33,725	1,492	1,657	–	–	78,743	76,010
Other manufacturing expenses	11,646	9,153	3,915	2,992	203	399	–	–	15,764	12,544
Duty drawback and research & development support claim	–	–	–	–	(7,208)	(2,975)	–	–	(7,208)	(2,975)
Bagasse sale	(10,164)	(8,548)	–	–	–	–	–	–	(10,164)	(8,548)
Molasses transfer to distillery division	(191,181)	(190,987)	–	–	–	–	–	–	(191,181)	(190,987)
	207,965	196,494	211,563	195,795	12,368	22,352	–	–	431,896	414,641
Manufacturing cost	3,207,618	2,215,155	1,442,860	912,554	134,010	195,088	–	–	4,784,488	3,322,797
Opening stock of work-in-process	558	356	–	–	2,580	2,911	–	–	3,138	3,267
Closing stock of work-in-process	(890)	(558)	–	–	(8,801)	(2,580)	–	–	(9,691)	(3,138)
	(332)	(202)	–	–	(6,221)	331	–	–	(6,553)	129
Cost of goods manufactured	3,207,286	2,214,953	1,442,860	912,554	127,789	195,419	–	–	4,777,935	3,322,926
Opening stock of finished goods	104,998	261,821	49,275	152,241	110	2,156	–	–	154,383	416,218
Finished goods purchased	–	–	–	–	99,136	58,871	65,632	76,589	164,768	135,460
Closing stock of finished goods	(13,650)	(104,998)	(121,203)	(49,275)	(1,950)	(110)	–	–	(136,803)	(154,383)
	91,348	156,823	(71,928)	102,966	97,296	60,917	65,632	76,589	182,348	397,295
	3,298,634	2,371,776	1,370,932	1,015,520	225,085	256,336	65,632	76,589	4,960,283	3,720,221

21.1 Salaries, wages and other benefits include a sum of Rs. 7.5 (2009: Rs. 6.70) million in respect of staff retirement benefits.

(Rupees in thousands)

22. Distribution and marketing expenses

	Sugar Division 2010	Sugar Division 2009	Distillery Division 2010	Distillery Division 2009	Textile Division 2010	Textile Division 2009	Trading Division 2010	Trading Division 2009	Total 2010	Total 2009
Salaries, wages and other benefits - note 22.1	4,874	4,442	1,498	624	2,638	2,994	–	197	9,010	8,257
Insurance	2,907	3,013	1,335	1,048	–	10	14	15	4,256	4,086
Rent, rates, taxes and lease rentals	494	3,295	541	–	–	–	–	198	1,035	3,493
Transport, freight, handling and forwarding expenses	32,153	55,315	65,493	56,738	3,036	4,054	149	628	100,831	116,735
Other expenses	–	–	8,649	4,046	4,257	4,115	91	386	12,997	8,547
	40,428	66,065	77,516	62,456	9,931	11,173	254	1,424	128,129	141,118

22.1 Salaries, wages and other benefits include a sum of Rs. 0.47 (2009: Rs. 0.44) million in respect of staff retirement benefits.

23. Administrative expenses

	Sugar Division 2010	Sugar Division 2009	Distillery Division 2010	Distillery Division 2009	Textile Division 2010	Textile Division 2009	Trading Division 2010	Trading Division 2009	Total 2010	Total 2009
Salaries, wages and other benefits - note 23.1	45,189	38,366	1,497	1,109	1,303	2,796	152	573	48,141	42,844
Insurance	1,252	1,048	66	26	–	–	2	19	1,320	1,093
Repairs and maintenance	979	837	299	266	191	166	–	160	1,469	1,429
Postage, telephone and stationery	3,534	3,316	424	389	130	227	–	13	4,088	3,945
Travelling and vehicle running expenses	7,556	7,508	92	43	716	140	35	106	8,399	7,797
Rent, rates, taxes and lease rentals	4,609	5,013	764	329	–	–	2,802	197	8,175	5,539
Water, electricity and gas	2,956	2,294	257	178	174	112	–	107	3,387	2,691
Fees, subscription and periodicals	1,756	1,227	–	–	3	3	–	–	1,759	1,230
Legal and professional charges	2,100	1,102	371	195	–	–	–	–	2,471	1,297
Directors' meeting fee	26	22	–	–	–	–	–	–	26	22
Depreciation	866	974	74	84	260	325	–	–	1,200	1,383
Auditors' remuneration - note 23.2	1,060	914	312	328	48	68	14	24	1,434	1,334
Other expenses - note 23.3	11,392	8,252	100	75	265	702	–	45	11,757	9,074
	83,275	70,873	4,256	3,022	3,090	4,539	3,005	1,244	93,626	79,678

23.1 Salaries, wages and other benefits include a sum of Rs. 1.93 (2009: Rs. 2.35) million in respect of staff retirement benefits.

23.2 Auditors' remuneration

	Sugar Division 2010	Sugar Division 2009	Distillery Division 2010	Distillery Division 2009	Textile Division 2010	Textile Division 2009	Trading Division 2010	Trading Division 2009	Total 2010	Total 2009
Annual audit fee	412	313	157	146	24	30	7	11	600	500
Half yearly review fee	103	63	39	29	6	6	2	2	150	100
Cost audit fee	175	175	–	–	–	–	–	–	175	175
Tax / other services	180	228	69	106	11	22	3	8	263	364
Out of pocket expenses	190	135	47	47	7	10	2	3	246	195
	1,060	914	312	328	48	68	14	24	1,434	1,334

Auditors' remuneration, other than the cost audit fee of the sugar division, payable to another firm of auditors, is allocated on the basis of sales.

23.3 Donations of Rs. 4.5 (2009: Rs. 4.0) million are included under other expenses of sugar division. The details of donations are given below:

	Note	2010	2009
		(Rupees in thousands)	
Name of Institution			
Al-Sayyeda Benevolent Trust		910	910
Habib Education Trust		840	840
Rehmat Bai Widows & Orphange Trust		500	500
Habib Medical Trust		840	840
Young Presidents' Organization		500	–
Habib Poor Fund		910	910
		4,500	4,000

None of the Directors or their spouses had any interest in the above donee's fund, except for Habib Education Trust, where Mr. Imran A. Habib, Director of the Company is a Trustee.

24. Other operating expenses

	Note	2010	2009
Workers' Profit Participation Fund	16.1	40,835	35,205
Workers' Welfare Fund		16,334	14,082
		57,169	49,287

25. Other operating income

	Note	2010	2009
Income from financial assets			
Profit on sale of long-term investments		1,152	40
Dividend income	25.1	32,570	16,731
Exchange gain		2,521	1,373
		36,243	18,144
Income from non financial assets			
Gain on sale of fixed assets previously written off		–	3,648
Gain on disposal of fixed assets		1,860	2,362
Agricultural income	25.2	233	113
Scrap sale		3,131	1,991
		5,224	8,114
		41,467	26,258

25.1 Dividend income includes dividend received from the following related parties:

	2010	2009
Bank AL Habib Limited	20,297	9,950
Habib Insurance Company Limited	6,068	1,926
	26,365	11,876

In addition to cash dividend, the Company received 2,029,720 Ordinary shares (2009: 2,188,914 shares) of Rs. 10/- each and Nil Ordinary shares (2009: 385,276 shares) of Rs. 5/- each as bonus shares from Bank AL Habib Limited and Habib Insurance Company Limited, respectively.

25.2 This is net of expenditure amounting to Rs. 2.51 (2009: Rs. 2.87) million.

26. Finance income / (cost) - net

	Note	2010	2009
		(Rupees in thousands)	
Mark-up / interest on:			
Short-term borrowings		(67,100)	(49,686)
Workers' Profit Participation Fund		(538)	(1,308)
Bank charges		(7,087)	(5,872)
		(74,725)	(56,866)
Less: Profit on treasury call accounts		75,447	118,676
Profit on term deposits		37,215	–
		112,662	118,676
		37,937	61,810

27. Taxation

	Note	2010	2009
Income tax - current		241,000	175,000
- prior years	27.1	(15,000)	(11,000)
		226,000	164,000
Deferred		(1,000)	1,000
		225,000	165,000

27.1 This represents reversal of tax provision for the tax year 2004 (financial year ended September 30, 2003) and tax year 2005 (financial year ended September 30, 2004) which are no longer required.

27.2 Reconciliation of tax charge for the year

	2010	2009
	(Rupees in thousands)	
Accounting profit	759,535	654,816
Corporate tax rate	35%	35%
Tax on accounting profit at applicable rate	265,837	229,185
Tax effect of timing differences	(171)	(5,326)
Tax effect of lower tax rates on certain income	(26,646)	(64,802)
Tax effect of income exempt from tax	(484)	(53)
Tax effect of expenses that are inadmissible in determining taxable income	1,464	16,996
Adjustments relating to prior years	(15,000)	(11,000)
	(40,837)	(64,185)
Provision for taxation	225,000	165,000

		2010	2009
		(Rupees in thousands)	
28.	**Earnings per share - Basic and diluted**		
	Profit after taxation	534,535	489,816
		Number of shares	
			(Restated)
	Number of ordinary shares of Rs. 5 each	120,000,000	120,000,000
	Earnings per share - basic and diluted	Rs. 4.45	Rs. 4.08
29.	**Cash generated from operations**		
	Profit before taxation	759,535	654,816
	Adjustment for non-cash charges and other items		
	Depreciation	80,199	77,682
	Provision for obsolescence and slow moving stores	675	7,000
	Gain on disposal of fixed assets	(1,860)	(2,362)
	Profit on sale of long-term investments	(1,152)	(40)
	Impairment on long-term investments	–	27,134
	Finance (income) / cost - net	(37,937)	(61,810)
	Dividend income	(32,570)	(16,731)
	Working capital changes - note 29.1	(113,024)	450,631
		653,866	1,136,320
29.1	**Working capital changes**		
	(Increase) / decrease in current assets		
	Stores and spares	(11,071)	(5,761)
	Stock-in-trade	(108,337)	227,182
	Trade debts	239,219	50,366
	Loans and advances	109,749	170,787
	Trade deposits and short-term prepayments	(867)	1,605
	Sales tax and excise duty adjustable	(32,631)	–
	Other receivables	(535)	4,397
		195,527	448,576
	Increase / (decrease) in current liabilities		
	Trade and other payables	(308,551)	2,055
	Net changes in working capital	(113,024)	450,631
30.	**Cash and cash equivalents at the end of the year**		
	These comprise of the following :		
	Cash and bank balances	1,307,268	1,595,667
	Short-term borrowings	–	(426,000)
		1,307,268	1,169,667

31. Remuneration of Chief Executive, Directors and Executives

	2010				2009			
	Chief Executive	Directors	Executives	Total	Chief Executive	Directors	Executives	Total
	(Rupees in thousands)							
Meeting fee - 7 Directors (2007: 7 Directors)	–	26	–	26	–	22	–	22
Managerial remuneration	5,700	14,929	38,313	58,942	5,384	14,100	33,354	52,838
Perquisites								
Telephone	30	328	315	673	28	402	307	737
Medical	43	174	1,740	1,957	8	102	1,075	1,185
Utilities	–	1,172	–	1,172	–	898	–	898
Entertainment	–	378	–	378	–	315	–	315
Retirement benefits	514	1,392	3,361	5,267	522	1,415	2,988	4,925
	6,287	18,373	43,729	68,389	5,942	17,232	37,724	60,898
Number of persons	1	3	25	29	1	3	24	28

31.1 Chief Executive, Directors and certain Executives are also provided with the Company maintained cars.

32. Financial Risk Management Objectives and Policies

The main risks arising from the Company's financial instruments are credit risk, liquidity risk, foreign currency risk and equity price risk. The Board of Directors reviews and decides policies for managing each of these risks which are summarised below.

32.1 Credit risk

Credit risk is the risk which arises with the possibility that one party to a financial instrument will fail to discharge its obligation and cause the other party to incur a financial loss. The Company attempts to control credit risk by monitoring credit exposures, limiting transactions with specific counterparties and continually assessing the credit worthiness of counterparties.

Concentrations of credit risk arise when a number of counterparties are engaged in similar business activities or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations of credit risk indicate the relative sensitivity of the Company's performance to developments affecting a particular industry.

The Company is exposed to credit risk on long-term investments, loans, advances, deposits, trade debts, profit accrued on bank deposits, other receivables and bank balances. The Company seeks to minimize the credit risk exposure through having exposures only to customers considered credit worthy and obtaining securities where applicable. The maximum exposure to credit risk at the reporting date is as under:

	Carrying Values 2010	Carrying Values 2009
	(Rupees in thousands)	
Long-term investments	695,432	555,710
Long-term loans	3,860	4,019
Long-term deposits	2,948	2,936
Trade debts	114,178	353,397
Loans and advances	58,741	168,490
Trade deposits	1,124	–
Profit accrued on bank deposits	–	9,223
Other receivables	6,215	5,314
Bank balances	1,307,117	1,595,504
	2,189,615	2,694,593

Quality of financial assets

The credit quality of financial assets that are neither past due nor impaired can be assessed by reference to external credit ratings or the historical information about counter party default rates as shown below:

		Carrying Values 2010	Carrying Values 2009
		(Rupees in thousands)	
32.1.1	**Trade debts**		
	Customers with no defaults in the past one year	86,608	324,052
	Customers with some defaults in past one year which have been fully recovered	21,807	19,389
	Customers with defaults in past one year which have not yet been recovered	–	–
		108,415	343,441
32.1.2	**Investments**		
	Long-term Rating		
	AAA	6,736	–
	AA+	402,045	339,760
	A+	36,374	–
	AA	55,952	54,649
	AA-	100,491	5,673
	A-	–	132
	Estimated credit rating not available	93,834	155,496
		695,432	555,710
	Short-term Rating		
	A1+	463,638	400,082
	A2	–	132
	Estimated credit rating not available	231,794	155,496
		695,432	555,710
32.1.3	**Bank Balances**		
	A1+	1,306,831	1,595,071
	A1	227	372
	A2	59	16
	P1	–	45
		1,307,117	1,595,504

32.2 Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company applies the prudent risk management policies by maintaining sufficient cash and bank balances and by keeping committed credit lines. The table below summarises the maturity profile of the Company's financial liabilities at the following reporting dates:

Year ended 30 September 2010	On demand	Less than 3 months	3 to 12 months	1 to 5 years	> 5 years	Total
			(Rupees in thousands)			
Trade and other payables	–	187,803	281,606	–	–	469,409
Short-term borrowings	–	–	–	–	–	–
Accrued mark-up on short-term borrowings	–	–	–	–	–	–
	–	187,803	281,606	–	–	469,409

Year ended 30 September 2009	On demand	Less than 3 months	3 to 12 months	1 to 5 years	> 5 years	Total
			(Rupees in thousands)			
Trade and other payables	–	154,074	620,240	–	–	774,314
Short-term borrowings	–	–	426,000	–	–	426,000
Accrued mark-up on short-term borrowings	–	4,635	–	–	–	4,635
	–	158,709	1,046,240	–	–	1,204,949

32.3 Foreign currency risk

Foreign currency risk is the risk that the value of financial assets or a financial liability will fluctuate due to a change in foreign exchange rates. It arises mainly where receivables and payables exist due to transactions in foreign currency. The Company's exposure to foreign currency risk is as follows:

		2010	2009
		(Respective Currency)	
Trade debts	$	383,366	355,554
“	€	53,208	–
Trade and other payables	$	52,980	–

The following significant exchange rates have been applied at the reporting dates:

		2010	2009
Exchange rates	buying $	86.22	83.10
	selling $	86.42	–
	buying €	117.29	–

The foreign currency exposure is partly covered as the outstanding balance at the year end is determined in respective currency which is converted into rupees at the exchange rate prevailing at the balance sheet date.

Sensitivity analysis

The following table demonstrates the sensitivity to a reasonably possible change in the foreign currency exchange rate, with all other variables held constant, of the Company's profit before tax and the Company's equity.

	Change in Foreign Currency rate (%)	Effect on profit or /(loss)	Effect on equity
		(Rupees in thousands)	
September 30, 2010	+10	3,471	3,432
	-10	(3,471)	(3,432)
September 30, 2009	+10	2,955	2,925
	-10	(2,955)	(2,925)

32.4 Equity price risk

The Company's equity securities are susceptible to market price risk arising from uncertainties about future values of investment securities. The Company manages the equity price risk through diversification and placing limits on individual and total equity instruments. Reports on the equity portfolio are submitted to the Company's senior management on a regular basis. The Company's Board of Directors reviews and approves policy decisions.

At the balance sheet date, the exposure to equity securities held as available for sale was Rs.695.432 million. (2009: Rs. 555.710 million).

32.5 Capital risk management

The primary objective of the Company's capital management is to ensure ample availability of finance for its existing and potential investment projects, to maximise shareholder value and reduce the cost of capital.

The Company manages its capital structure and makes adjustment to it, in light of changes in economic conditions. In order to maintain or adjust the capital structure, the Company may adjust the amount of dividends paid to shareholders, return capital to shareholders or issue new shares.

The gearing ratio of the company is nil and the company finances its investments portfolio through management of its working capital and equity with a view to maintaining an appropriate mix between various sources of finance to minimise risk.

32.6 Fair value of financial instruments

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable willing parties in an arm's length transaction.

Financial assets which are tradeable in an open market are revalued at the market prices prevailing on the balance sheet date. The estimated fair value of all other financial assets and liabilities is considered not significantly different from book value.

The following shows financial instruments recognized at fair value, analysed between those whose fair value is based on:

Level 1: Quoted prices in active markets for identical assets or liabilities

Level 2: Those involving inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices); and

Level 3: Those whose inputs for the asset or liability that are not based on observable market date (unobservable inputs).

As at September 30, 2010, the Company had only Long-term investments measured at fair value using Level 1 valuation techniques.

During the year ended September 30, 2010, there were no transfers between Level 1 and Level 2 fair value measurements, and no transfers into and out of Level 3 fair value measurement.

33. Capacity and production

	2010			2009		
	Quantity		Working days	Quantity		Working days
33.1 Sugar division						
Crushing capacity	7,000	M.Tons	Per Day	7,000	M. Tons	Per Day
Capacity based on actual working days	784,000	M. Tons	112	840,000	M. Tons	120
Actual crushing	681,623	M. Tons	112	780,578	M. Tons	120
Sucrose recovery	10.24	%		9.87	%	
Sugar production	69,784	M. Tons		77,051	M. Tons	

Sugar unit operated below capacity due to lesser availability of sugarcane.

33.2 Distillery division

a) Ethanol

Capacity	34,000	M. Tons	300	34,000	M. Tons	300
Actual production	26,210	M. Tons	323	21,739	M. Tons	316

Ethanol production was also below capacity because lesser quantity of molasses was available due to reduced quantum of sugarcane crushed.

b) Liquid Carbon Dioxide (CO_2)

Capacity	6,000	M. Tons	300	6,000	M. Tons	300
Actual production	3,648	M. Tons	221	2,643	M. Tons	152

Commercial production of CO_2 commenced on March 19, 2009 as such the production in 2009 was less. The production achieved in 2010 was considered adequate taking into consideration the domestic market conditions.

33.3 Textile division

Capacity	300,000	Kgs.	300	300,000	Kgs.	300
Actual production	352,490	Kgs.	300	534,526	Kgs.	300

The actual production of textile division is higher than the capacity due to purchase of semi-finished goods.

34. Transactions with related parties

Material transactions with related parties, other than remuneration and benefits to Directors and key management personnel under the terms of their employment, are given below:

	2010	2009
	(Rupees in thousands)	
Insurance premium	15,534	14,466
Insurance claims received	1,170	9,496
Profit on treasury call accounts / term deposits	61,972	50,908
Long-term investments	100,000	–
Purchases / sales / services	381	290
Dividend received	26,365	11,876
Dividend paid	27,509	14,668
Bonus shares received at nominal value	20,297	23,816
Bonus shares issued at nominal value	19,649	19,558
Bank charges	522	551

Transactions with related parties are carried out at arm's length.

35. Dividend

In the meeting held on December 22, 2010, the Board of Directors of the Company have proposed a final cash dividend for the year ended September 30, 2010 of Rs. 1.25 per share (25%). The Directors have also recommended a stock dividend through the issue of bonus shares in the proportion of one bonus share of Rs. 5 each for every four (25%) Ordinary shares of Rs. 5 each held. The bonus shares, so issued shall not be eligible for the final cash dividend declared for the year ended September 30, 2010. The approval of the members for the proposed final cash dividend and the proposed bonus issue will be obtained at the Annual General Meeting of the Company to be held on January 29, 2011. The financial statements for the year ended September 30, 2010 do not include the effect of the proposed final cash dividend and the proposed bonus issue which will be accounted for in the financial statements for the year ending September 30, 2011.

36. General

- Figures have been rounded off to the nearest thousand rupees.

- These financial statements were authorised for issue on December 22, 2010 by the Board of Directors of the Company.

Raeesul Hasan
Chief Executive

Murtaza H. Habib
Director

Pattern of Shareholding as at September 30, 2010

Number of Shareholders	Size of Shareholding From		To	Total Number of Shares held
899	1	...	100	29,066
929	101	...	500	262,412
545	501	...	1,000	414,538
1,421	1,001	...	5,000	2,989,826
260	5,001	...	10,000	1,888,899
126	10,001	...	15,000	1,559,690
68	15,001	...	20,000	1,187,639
39	20,001	...	25,000	887,116
20	25,001	...	30,000	543,994
18	30,001	...	35,000	587,357
12	35,001	...	40,000	446,376
16	40,001	...	45,000	677,173
7	45,001	...	50,000	331,568
7	50,001	...	55,000	365,022
9	55,001	...	60,000	512,785
11	60,001	...	65,000	685,489
7	65,001	...	70,000	477,587
2	70,001	...	75,000	141,177
1	75,001	...	80,000	75,042
3	80,001	...	85,000	250,673
1	85,001	...	90,000	85,077
3	90,001	...	95,000	273,036
1	95,001	...	100,000	99,055
2	100,001	...	105,000	209,840
1	105,001	...	110,000	106,896
4	110,001	...	115,000	450,710
5	120,001	...	125,000	612,051
3	125,001	...	130,000	384,515
3	130,001	...	135,000	400,102
6	135,001	...	140,000	816,844
2	145,001	...	150,000	298,501
1	150,001	...	155,000	152,616
1	155,001	...	160,000	156,408
2	160,001	...	165,000	325,026
2	180,001	...	185,000	361,527
1	185,001	...	190,000	185,622
1	195,001	...	200,000	197,275
3	225,001	...	230,000	680,796
1	235,001	...	240,000	237,242
2	240,001	...	245,000	486,102
4	245,001	...	250,000	990,154
1	255,001	...	260,000	256,357
2	260,001	...	265,000	526,032
1	270,001	...	275,000	272,592
1	280,001	...	285,000	282,335
1	285,001	...	290,000	287,976
1	290,001	...	295,000	291,166
2	305,001	...	310,000	617,153
2	310,001	...	315,000	626,927
1	315,001	...	320,000	317,902
1	330,001	...	335,000	330,720
1	335,001	...	340,000	336,917
1	345,001	...	350,000	349,733
5	370,001	...	375,000	1,869,098
1	395,001	...	400,000	396,661
2	405,001	...	410,000	817,070
1	415,001	...	420,000	417,011
1	420,001	...	425,000	424,046
1	445,001	...	450,000	445,702
1	450,001	...	455,000	453,910
1	455,001	...	460,000	458,335
1	475,001	...	480,000	477,626
1	480,001	...	485,000	484,942
1	495,001	...	500,000	500,000
1	525,001	...	530,000	526,857
2	605,001	...	610,000	1,212,347
1	620,001	...	625,000	624,660
2	735,001	...	740,000	1,470,226
1	775,001	...	780,000	776,102
1	830,001	...	835,000	831,411
3	835,001	...	840,000	2,506,433
2	940,001	...	945,000	1,889,222
1	950,001	...	955,000	951,601
1	1,065,001	...	1,070,000	1,065,040
1	1,130,001	...	1,135,000	1,134,852
1	1,350,001	...	1,355,000	1,350,601
1	1,490,001	...	1,495,000	1,493,525
1	2,010,001	...	2,015,000	2,014,845
1	2,205,001	...	2,210,000	2,205,663
1	2,455,001	...	2,460,000	2,457,476
1	2,845,001	...	2,850,000	2,847,801
1	4,235,001	...	4,240,000	4,236,076
1	4,660,001	...	4,665,000	4,660,286
1	6,260,001	...	6,265,000	6,262,336
1	7,090,001	...	7,095,000	7,094,798
1	7,490,001	...	7,495,000	7,493,050
1	10,620,001	...	10,625,000	10,621,257
1	21,210,001	...	21,215,000	21,210,500
4,509				**120,000,000**

Shareholders' Category	Number of Shareholders	Number of Shares held	Percentage
Individuals	4,426	39,736,431	33.11
Insurance Companies	3	8,896,498	7.41
Joint Stock Companies	45	33,070,218	27.56
Financial Institutions	12	28,139,141	23.45
Modaraba Company	2	382,720	0.32
Charitable Trusts	16	9,318,725	7.77
Societies	3	416,516	0.35
Corporate Law Authority	1	1	0.00
The Administrator Abandoned Properties Organisation	1	39,750	0.03
	4,509	**120,000,000**	**100.00**

Pattern of Shareholding as at September 30, 2010

Additional Information

Shareholders' Category		Number of Shareholders	Number of Shares Held
Related Parties			
Habib Insurance Company Limited		1	4,236,076
Habib Mercantile Company (Pvt) Limited		1	408,535
Habib & Sons (Pvt) Limited		1	417,011
Bank AL Habib Limited		1	7,493,050
Hasni Textiles (Pvt) Ltd.		1	7,094,798
NIT and ICP			
National Bank of Pakistan Trustee Department (NIT)		1	10,621,257
Investment Corporation of Pakistan		1	4,636
Directors, CEO and their spouses and minor children			
Asghar D. Habib	Chairman	1	835,482
Ali Raza D. Habib	Director	1	18,575
Muhammad Nawaz Tishna (NIT Nominee)	"	–	–
Murtaza H. Habib	"	1	944,611
Farouq Habib Rahimtoola	"	1	19,867
Amin Ali Abdul Hamid	"	1	19,177
Imran A. Habib	"	1	835,475
Raeesul Hasan	Chief Executive	1	25
Mrs. Tahira Ali Asghar w/o Mr. Ashgar D. Habib		1	308,577
Executives		2	607,153
Joint Stock Companies and Corporation		41	3,939,374
Banks, Development Finance Institutions, Non-Banking Finance Institutions, Insurance Companies, Modarabas and Mutual Funds		13	15,063,340
Individuals		4,416	36,147,489
Charitable & other Trusts, Societies and Government Institutions		21	9,774,992
Shareholders holding 10% or more voting interest			
ICOM Industrie-Und Handels, Schaan Principality of Liechtenstein		1	21,210,500
		4,509	120,000,000

Form of Proxy

The Company Secretary
Habib Sugar Mills Limited
Imperial Court, 4th Floor
Dr. Ziauddin Ahmed Road
KARACHI – 75530

I/We..of...
a member(s) of HABIB SUGAR MILLS LIMITED and holding...
ordinary shares, as per Folio No. / CDC Account and Participant's I.D. Numbers ....
....
hereby appoint ....of...
or failing him...of...
another member of the Company to vote for me / us and on my / our behalf at the Forty-ninth Annual General Meeting of the Company to be held on Saturday, January 29, 2011 and at any adjournment thereof.

As witness my / our hand this..day of.................................2011

Rs. Five Revenue Stamp

....
SIGNATURE OF MEMBER(S)

A member entitled to attend and vote at this meeting is entitled to appoint another member of the Company as a proxy to attend and vote on his / her behalf.

Any individual beneficial owner of CDC, entitled to attend and vote at this meeting must bring his / her National Identity Card, Account and Participant's ID Numbers to prove his / her identity, and in case of proxy, must enclose attested copies of his / her National Identity Card, Account and Participant's ID Numbers. Representatives of corporate members should bring the usual documents as required for such purpose.

The instrument appointing a proxy should be signed by the member or by his attorney duly authorised in writing. If the member is a corporation its common seal (if any) should be affixed to the instrument.

The instrument appointing a proxy, together with the power of attorney (if any) under which it is signed or a notarially certified copy thereof, should be deposited at the registered office of the Company at least 48 hours before the time of the meeting.